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Technical
Information for
Practitioners
Series

4

IMPLEMENTING QUALITY CONTROL: FORMS AND SAMPLE DOCUMENTS

AICPA

American Institute of Certified Public Accountants

NOTICE TO READERS

This book appears as sections 11,100 through 11,600 in the looseleaf AICPA *Audit and Accounting Manual* (as of January 1989), which is updated quarterly.

This material has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board and has no official or authoritative status.

IMPLEMENTING QUALITY CONTROL: FORMS AND SAMPLE DOCUMENTS

Linda J. Huntley, CPA, Technical Manager

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PREFACE

Implementing Quality Control—Forms and Sample Documents

This book is the fourth in the Technical Information for Practitioners (TIPS) series. Each book in the series is designed to give practical guidance to one aspect of an accounting or audit engagement. The material herein also appears as sections 11,100 through 11,600 of the looseleaf AICPA *Audit and Accounting Manual* (as of January 1989), which is updated quarterly.

This book includes illustrative quality control tools that can be used by firms when establishing their own quality control policies and procedures.

This is a nonauthoritative kit of practice aids. Various quality control tools are in use; nevertheless, inclusion of the formats in this book in no way means that they are preferable. Readers are urged to refer directly to authoritative pronouncements when appropriate.

Illustrative formats of quality control aids are often helpful in developing a consistent style within a firm. However, no set of illustrative formats can cover all the situations that are likely to be encountered.

Readers should consider other sources of illustrative presentations, such as those in authoritative pronouncements and AICPA audit and accounting guides.

The sole responsibility for this material rests with the staff of the Technical Information Division. This material has not been approved, disapproved, or otherwise acted upon by the senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board. Comments and suggestions may be addressed to the following:

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AAM Section 11,100

Quality Control—General

What Is Quality Control?

.01 *Quality control* for a CPA firm requires conforming with the professional standards as they relate to the service being performed. The firm's policies and procedures followed for all auditing, accounting, and review services should document their adherence to the professional standards. The nature and extent of a firm's quality control policies and procedures depend on a number of factors, such as its size, the nature of its practice, its organization, and appropriate cost-benefit considerations.

The AICPA's Statement on Quality Control Standards

.02 The *system of quality control* is described in Volume 2 of the *Professional Standards*, QC section 10, as follows: "A system of quality control for a firm encompasses the firm's organizational structure and the policies adopted and procedures established to provide the firm with reasonable assurance of conforming with professional standards. The system of quality control should be appropriately comprehensive and suitably designed in relation to the firm's organizational structure, its policies and the nature of its practice."

.03 The AICPA Bylaws, section 2.2.3, requires that members engaged in the practice of public accounting may only do so with a firm that is enrolled in an Institute-approved practice monitoring program.

.04 The AICPA Quality Review Executive Committee issued an exposure draft entitled *Proposed Standards for Performing and Reporting on Quality Reviews* in October 1988. Final issuance of this statement is expected in 1989.

.05 In establishing quality control policies and procedures, firms consider each of the elements discussed below.

- a. **Independence.** The firm should be assured that persons at all levels maintain independence to the extent required by the rules of conduct of the AICPA.

Forms which may assist you are:

<u>Section</u>	<u>Form Name</u>
11,600.01	Independence Checklist for Employees
11,600.02	Independence Checklist for Other Auditors

- b. **Assigning Personnel to Engagements.** The firm should be assured that work will be performed by persons having the degree of technical training and proficiency required in the circumstances.

Forms which may assist you are:

<u>Section</u>	<u>Form Name</u>
11,600.03	Scheduling Request
11,600.04	History of Staff Assignments
11,600.05	Client History of Personnel Assigned
11,600.06	Scheduling Master Plan

- c. **Consultation.** The firm should be assured personnel will seek assistance, to the extent required, from persons having appropriate levels of knowledge, competence, judgment, and authority.

Forms which may assist you are:

<u>Section</u>	<u>Form Name</u>
11,600.07	Consultation Log
11,600.08	Consultation Worksheet

- d. **Supervision.** The firm should be assured that work at all organizational levels is supervised to ascertain that the work performed meets the firm's standards of quality.

Forms which may assist you are:

<u>Section</u>	<u>Form Name</u>
11,600.22-23	Audit Time Budget
11,600.24-25	Audit Time Analysis
11,600.26	Weekly Progress Report
11,600.27	Illustrative Planning Checklist
11,600.28	Sample Engagement Letter
11,600.29	Illustrative Engagement Letter for a Compilation
11,600.30	Illustrative Engagement Letter for a Review
11,600.31	Illustrative Audit Programs
11,600.32	Supervision and Review Procedures
11,600.04	History of Staff Assignments

- e. **Hiring.** The firm should be assured that those employed possess the appropriate characteristics to enable them to perform competently.

Forms which may assist you are:

<u>Section</u>	<u>Form Name</u>
11,600.09	Pre-Employment Application
11,600.10	Interview Report

- f. **Professional Development.** The firm should be assured that personnel will have the knowledge required to enable them to fulfill responsibilities assigned and to comply with applicable (state) Board of Accountancy requirements.

Forms which may assist you are:

<u>Section</u>	<u>Form Name</u>
11,600.11	Record of Professional Development

- 11,600.12 Professional Development Summary (in hours)
- 11,600.13 Professional Development Summary (in dollars)

g. **Advancement.** The firm should be assured that those selected for advancement will have the qualifications necessary for fulfillment of the responsibilities they will be called on to assume.

Forms which may assist you are:

<u>Section</u>	<u>Form Name</u>
11,600.14	Performance Evaluation
11,600.15	Job Evaluation Report
11,600.16	Knowledge and Skill Form
11,600.17	Employee Annual Performance Appraisal

h. **Acceptance and Continuation of Clients.** The firm should be assured that the decision to accept or continue a client is in the best interest of the firm as well as the client.

Forms which may assist you are:

<u>Section</u>	<u>Form Name</u>
11,600.18	New Client Acceptance Checklist
11,600.19	Client Evaluation Questionnaire
11,600.33	Client Acceptance Form
11,600.34	Client Information Form

i. **Inspection.** The firm should be assured that the procedures relating to other elements of quality control are being effectively performed.

Forms which may assist you are:

<u>Section</u>	<u>Form Name</u>
11,600.20	Summary Inspection Report
11,600.21	Inspection of Compliance With Policies and Procedures Relating to Elements of Quality Control

The elements are interrelated. For example, a firm's hiring practices affect its policies as to training, training affects policies as to promotion, etc. The system should be designed to function together to maintain a firm's quality. (This section does not specifically cover services for OCBOA, Agreed-Upon Procedures, Prospective Financial Statements, Internal Control Reports or Attest Engagements. A firm may want to develop alternative Quality Control checklists for these engagements.)

.06 Although firms that have a review of their quality control system are not required to have a formal quality control document, many firms find preparation and dissemination to their staff of such a document useful. The sample quality control documents for local CPA firms and sole practitioners presented in the following sections have been prepared using the information contained in Statement on Quality Control Standards, *System of Quality Control for a CPA Firm*, the interpretations of this statement, and the guide entitled *Quality Control Policies and Procedures for CPA Firms*, which was prepared by the Quality Control Review Committee for use in establishing guidance for the implementation of this statement. The publications are included in the Quality Control section of *Professional Standards*, volume 2.

AAM Section 11,200

Sample Quality Control Document for a Two-Partner Local CPA Firm

.01 Firm Background Information

Our firm was founded in 19XX by our executive partner after he had gained several years' experience with a large regional CPA firm. The administrative partner joined the firm as a staff assistant upon his college graduation. Presently we employ three professional staff members and two clerical staff personnel giving our firm a total of seven people. (Our organization chart is on the next page.)

Our objective of providing quality service to clients and our concern for the general public interest has established our reputation in our community and has enabled us to grow through internal expansion.¹ We do not have, nor do we anticipate accepting, publicly held corporations as clients. It is anticipated that much of our future growth will be through expanded service to present clients and the addition of new clients on a regular basis. We intend to hire and train personnel who will be able to grow professionally with us, as needed.

Our practice breakdown is as follows:

Auditing	30%
Unaudited financial statements	22
Taxes	33
Management advisory service	3
Other accounting services	<u>12</u>
	<u>100%</u>

Our practice is conducted from one office, and our audit clientele consists of manufacturing companies, retail establishments, and wholesale distributors. In addition, we have twenty-six unaudited statements clients and thirteen clients for whom we provide other accounting services.

February 10, 19XX

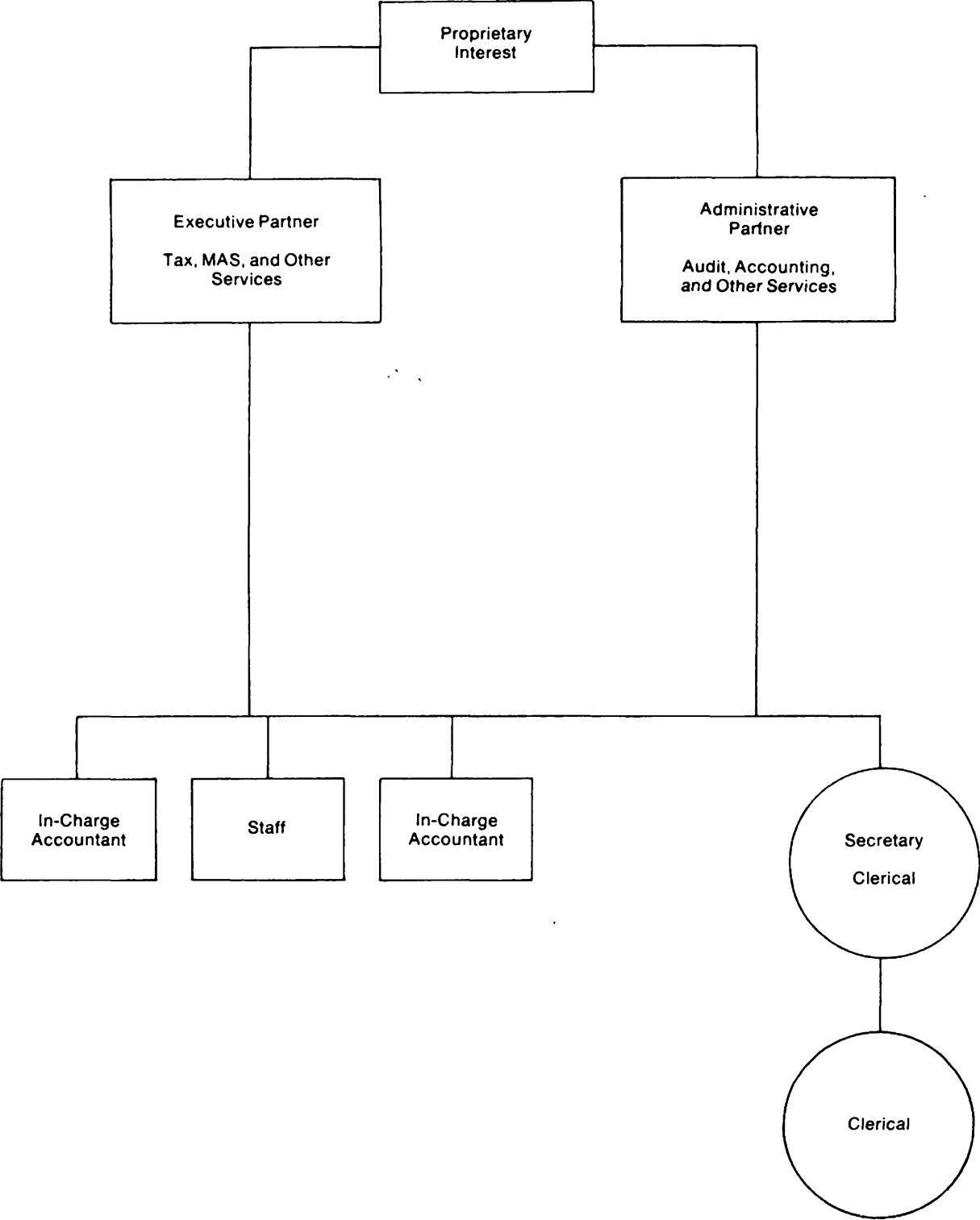
.02 Independence

1. All personnel are required to adhere to the independence rules, regulations, interpretations, and rulings of the AICPA, (state) CPA Society, (state) Board of Accountancy, and state statutes.

- a. The executive partner is responsible for resolving questions relating to independence matters and is available to provide guidance when required.

¹Additional considerations for establishing the firm's stated objectives are discussed in section 11,200.12.

Organization Chart



- b. The executive partner communicates with the AICPA and/or the (state) CPA Society for assistance in resolving independence questions that are not satisfactorily resolved within the firm. (See section 11,600.07 for an example of a log which can be utilized to document all communication with parties outside the firm; see also section 11,600.08 for a Consultation Worksheet which can be used to document the subject matter as well as the response from the consultant.)
 - c. A memorandum documenting the resolution of independence questions is prepared and retained by the executive partner; the other firm personnel involved in the matter review and initial the memorandum.
2. Policies and procedures relating to independence are communicated to all personnel.
 - a. Memorandums are used to inform personnel of the firm's independence policies and procedures and to advise them that they are expected to be familiar with those policies and procedures. Rulings and interpretations of the AICPA, (state) CPA Society, (state) Board of Accountancy, and state statutes are also made available to personnel.
 - b. Independence of mental attitude is emphasized during the conduct of engagements.
 - c. A current client listing is reviewed with each new employee to ensure that the employee is aware of those entities to which independence policies apply. During the monthly staff meeting, the staff is informed of any changes in the listing.
 - d. Our library contains professional, regulatory, and firm literature relating to independence matters.²
3. Independence is confirmed when another firm is engaged to perform a segment of an engagement for which we are the principal auditor.
 - a. The form and content of the independence representation that is to be obtained from a firm that has been engaged to perform segments of an engagement is part of the firm's accounting and auditing manual. (See section 11,600.02.)
 - b. An annual representation of independence should be obtained from an affiliate or associate firm on a repeat engagement.
4. Compliance with policies and procedures relating to independence is monitored.
 - a. Semiannually, at the June and December monthly staff meetings, provision is made on the agenda for all personnel to review and complete the Independence Checklist for Employees (section 11,600.01). The purpose of the checklist is to indicate that—
 1. They are familiar with the firm's independence policies and procedures.
 2. They are not now nor have been holding prohibited investments.
 3. They are not now nor have been involved in relationships or transactions that are prohibited.
 - b. The executive partner is responsible for the resolution of exceptions to the firm's policies and procedures relating to independence.

²The appropriate information may be found in *AICPA Professional Standards*, volume 2, and in rulings and interpretations of the state CPA societies, the state boards of accountancy, and state statutes.

- c. Accounts receivable that are past due are reviewed monthly by the executive partner to ascertain whether any outstanding amounts take on some of the characteristics of loans and may, therefore, impair the firm's independence.

.03 Assigning Personnel to Engagements

1. Our firm's approach to assigning personnel includes the planning of overall firm needs and the measures employed to achieve a balance of engagement manpower requirements, personnel skills, individual development, and utilization.
 - a. On an annual basis, normally in May of each year, the partners jointly develop a projection containing anticipated manpower requirements for the coming year. This can be achieved by obtaining from each partner a scheduling request (section 11,600.03) which enumerates the staff requirements by client.
 - b. In scheduling assignments the engagement partner strives to achieve a balance of engagement manpower requirements, personnel skills, individual development, and utilization.
2. The administrative partner is responsible for assigning personnel to engagements.
 - a. Before making assignments to engagements, the engagement partner considers the nature of the engagement and personnel availability.
 - b. The partners attempt to achieve a balance between the need for continuity and for periodic rotation of personnel to the extent practicable.
 - c. A scheduling tool which may be useful is the "Scheduling Master Plan" (section 11,600.06). This is usually prepared monthly, but depending upon the circumstances, may be prepared quarterly or yearly. The "Scheduling Master Plan" assists the individual responsible for scheduling to maintain a listing by staff of hours (nonworking, working). It further lists the type of working or nonworking hours (i.e., vacation, CPA exam, tax department, etc.). This tool maintains a record of the total hours assigned and available for each individual, including hours over/under assigned.

.04 Consultation

1. Areas and specialized situations where consultation is required are identified, and personnel are encouraged to consult with or use authoritative sources on complex or unusual matters.
 - a. All personnel are advised of our firm's consultation policies and procedures. These policies and procedures are set forth in a memorandum.
 - b. A listing of certain areas or specialized situations, which because of the nature or complexity of the subject have been identified as requiring consultation, is updated annually by the administrative partner and distributed to all personnel.
 - c. A technical reference library is maintained to assist personnel in resolving practice problems. The administrative partner is charged with the responsibility of periodically reviewing the library contents and making necessary additions.

- d. Personnel are encouraged to seek advice from a partner or other staff member when confronted with an unusual or complex situation related to that person's particular expertise.
 - e. When expertise is not available within the firm, practice questions and problems are referred by the engagement partner to the Technical Information Division of the AICPA or the (state) CPA Society established to handle technical inquiries. (See sections 11,600.07-.08 to document use of consultants.)
 - f. We maintain a consultation agreement with the local office of (firm name) CPAs to provide us with additional expertise. Inquiries to that firm are channeled through the administrative partner.
 - g. The results of outside consultation are reviewed by the partners before a decision is reached.
2. Specific individuals have been designated as having specialized experience and expertise in certain technical areas. These individuals are available for consultation to all personnel.
- a. A listing of our designated technical specialists has been prepared and circulated. The list is updated and recirculated as necessary.
 - b. The executive partner resolves differences of opinion on practice problems. Any party to the discussion who disagrees with the conclusion has the option of preparing a memorandum and filing it with the working papers.
3. In those areas and specialized situations where firm policy requires consultation with specialists, a summary of the consultation conclusions and the reasons for the conclusions is required.
- a. The memorandum (see item 1(a) above) is used to inform personnel of the consultation procedures, the extent of documentation required, and the responsibility for its preparation.
 - b. Consultation summaries are filed with the engagement working papers.
 - c. An example of a log which can be utilized to maintain a listing of consultations is shown in section 11,600.07. This log can be put in the workpapers to document consultants utilized on the engagement as well as to maintain control for follow-up documentation from the specific consultant used.
 - d. An example of a worksheet which can be used to document the consultation with specialists is shown in section 11,600.08.

.05 Supervision

1. All engagements are adequately planned by persons knowledgeable about the client and/or the type of engagement. (For additional information on Planning, review the *AICPA Audit and Accounting Manual (AAM)* section 3000 or *TIPS 2, Audit Planning*.)
- a. On all annual recurring accounting and auditing engagements where the anticipated manpower requirement is in excess of ten man-days, the in-charge accountant reviews with the engagement partner the following documents from the prior year's files, as applicable, to determine if modifications are appropriate:

1. Engagement letter
 2. Time budget compared with actual time expended
 3. Evaluation of the internal control structure
 4. Audit or work program
 5. Engagement notes and memorandums
 6. Financial statements and accountant's report
 7. Management letters
 8. Planning memorandum
- b.* On all engagements in excess of ten man-days, including annual recurring engagements, new engagements, and special engagements, the in-charge accountant submits to the engagement partner the following, where applicable, for his written approval:
1. Engagement letter
 2. Time budget
 3. Preliminary evaluation of the internal control structure
 4. Audit or work program
 5. A memorandum stating any special problems that may have an impact on the conduct of the engagement
 6. Planning memorandum
2. Procedures are provided for maintaining the firm's standards of quality for the work performed.
- a.* Depending upon each individual's background in relation to his assignment, varying degrees of supervision are provided. (See section 11,600.04.)
 - b.* Copies of forms, checklists, and questionnaires are available for use on engagements.
 - c.* Differences of opinion among staff members working on an engagement are brought to the attention of the engagement partner. If the partner agrees with the senior party to the dispute, the matter is considered resolved. If no resolution is made at this time, the partners jointly discuss the matter. Any party to the discussion who disagrees with the conclusion has the option of preparing a memorandum and filing it with the working papers.
3. All engagement working papers and reports are reviewed by appropriate supervisory personnel prior to issuance of the report. (For additional information on supervision, review AAM section 9000.)
- a.* The in-charge accountant reviews and initials all working papers he did not prepare (including those prepared by a partner). The engagement partner reviews the overall engagement (initialing all working papers not reviewed by an in-charge accountant), including financial statements and accountant's report, and discusses with the in-charge accountant any critical audit areas and unusual accounting matters encountered during the course of the engagement. This discussion is documented by a memorandum where appropriate.

- b.* In certain circumstances (as outlined in item 1*d* at paragraph .09) prior to the issuance of the financial statements and the auditor's report on them, another partner or an experienced staff member not otherwise associated with the engagement evaluates the appropriateness of financial statement disclosures and the auditor's report in relation to the material discussed in the engagement partner's memorandum.

.06 Hiring

1. The firm endeavors to obtain qualified personnel by planning for personnel needs and establishing hiring objectives.

- a.* The partners annually plan the firm's long-range personnel objectives. Current clientele, anticipated growth, personnel turnover, individual advancement, and retirement are among the criteria considered.
- b.* The partners make the employment decisions.

2. Our firm has established qualifications and guidelines for evaluating potential hirees. (See section 11,600.09 for an example of a Pre-Employment Application which can be used to determine the individual's qualifications and section 11,600.10 for an example of an Interview Report which can be used to document the interviewer's comments about individuals interviewed for positions within the firm.)

- a.* Our firm seeks to employ individuals with high levels of intelligence, integrity, honesty, motivation, and aptitude for the profession.
- b.* Our firm normally employs college and business college graduates with a concentration in accounting as full-time permanent members of our professional and paraprofessional staff.
- c.* Newly employed staff members are from the top half of their college class, unless other factors such as personal achievements, work experience, and personal interests indicate the likelihood of adequate professional development.
- d.* Our firm normally expects that a professional staff applicant's academic preparation will enable him to meet the academic requirements to sit for the CPA examination as administered by the (state) Board of Accountancy.
- e.* The backgrounds of new employees are appropriately investigated to reasonably assure hiring of persons with acceptable qualifications by obtaining completed application forms, college transcripts, and personal references.

3. Applicants and new personnel are informed of the firm's policies and procedures relevant to them.

- a.* The firm's personnel policies and procedures relevant to applicants are communicated to them before offers of employment are extended.
- b.* The administrative partner maintains and distributes to all personnel memorandums describing the firm's personnel policies and procedures.
- c.* The administrative partner discusses the firm's personnel policies and procedures with any new employee.

.07 Professional Development

1. Guidelines and requirements have been established for the firm's professional development program and are communicated to all personnel.

- a. The administrative partner is responsible for the formulation and implementation of guidelines and requirements for professional development.
- b. As part of their orientation, new employees are informed of professional responsibilities and opportunities by the administrative partner.
- c. Normally, a newly employed professional staff person with limited experience is sent to introductory-level training sessions of the AICPA or the (state) CPA Society during the first year of employment with our firm.
- d. Each partner and professional employee is required to complete a minimum of 40 hours of formal continuing professional education each year. (Firms should determine the specific requirements of their State Board of Accountancy.) Personnel complete the record of professional development form and forward it to the administrative partner. (See section 11,600.11.) The administrative partner is responsible for having the personnel files of each partner and professional employee updated to include a current record of hours of professional development completed. The types of programs qualifying for the fulfillment of the 40-hour requirement include—
 1. Continuing professional education programs of the AICPA and the (state) CPA Society. This includes sessions attended and, with written evidence of completion, cassette/workbook or workbook programs.
 2. College courses related to the profession.
- e. The executive partner annually reviews the firm's professional development program (including personnel participation records) to determine whether it is adequately meeting the firm's needs, providing for the professional growth of individuals, and meeting mandatory continuing education requirements.
- f. In order for the firm to maintain a summary of hours and dollars utilized, as well as to determine that personnel are obtaining a sufficient amount of continuing professional education hours, there are two tools which are helpful.

The first is a "Professional Development Summary (in hours)" (section 11,600.12) chart. This lists, by position, each professional and the courses attended. This chart can be used to review each individual's progress toward obtaining the educational requirements.

The second is a "Professional Development Summary (in dollars)" (section 11,600.13) chart. This lists, by position, each professional and the cost of each course attended. This chart can be used to review the cost of each individual's educational requirements. This tool is also useful for determining if the present manner utilized by the firm is the most cost effective.

2. Information about current developments in professional technical standards and materials containing the firm's technical policies and procedures are made available to personnel. Personnel are encouraged to engage in self-development activities.

- a. It is the responsibility of the administrative partner to distribute information relating to current developments in accounting and auditing to all personnel not receiving them

directly. This includes statements and interpretations issued by the Financial Accounting Standards Board, the Governmental Accounting Standards Board, the AICPA Auditing Standards Board, and other AICPA technical committees.

- b.* Pronouncements relating to areas of specific interest are distributed by the appropriate specialist to persons who have need for such information.
 - c.* The firm does not, at present, conduct formal in-house training programs. However, from time to time personnel participate in the training programs of the AICPA and (firm name) CPAs.
 - d.* A library of staff training cassette/workbook programs published by the AICPA and the (state) Society of CPAs is maintained by the administrative partner for self-study and reference purposes.
3. The firm recognizes that on-the-job training accounts for a significant part of professional development.
- a.* Personnel with in-charge responsibility on engagements—
 - 1. Discuss with assistants the relationship of the work they are performing to the engagement as a whole.
 - 2. Permit assistants, when practicable, to become involved in areas of the engagement other than those previously assigned.
 - 3. Explain to assistants the reasons for any additional work requirements discovered through the review process.
 - b.* Personnel are evaluated in part on their effectiveness in properly training and developing subordinates.

.08 Advancement

- 1. Our firm has established qualifications deemed necessary for the various levels of responsibility within the firm.
 - a.* Our firm has designated the staff classifications of in-charge accountant and staff assistant. Levels of responsibility inherent in the staff classifications are clearly defined.³
 - b.* The criteria that are considered in evaluating individual performance and expected proficiency are enumerated in our staff classification guidelines.
- 2. The performance of our personnel is continuously evaluated, and personnel are periodically advised of their progress. Personnel files are maintained containing documentation of the evaluation process. (See section 11,600.14–.15 for examples of Evaluation Forms, which may be used for periodic evaluation of staff members. The differences in the forms relate to the amount of time spent on a particular engagement. For example, if a staff member spends forty or more hours on an engagement, a more thorough evaluation can usually be performed [section 11,600.14]. Section 11,600.16 would be utilized to evaluate the management skills of

³The description of the firm's professional levels, with the responsibilities for each level and the general length of time required for advancement to the next position, can be found in section 11,200.11.

the individual being evaluated and therefore does not include specific duties relating to the assignment of work performed.)

- a. All professional employees receive an evaluation of their performance at least semi-annually. Such counseling interviews are conducted by the partners. These evaluations summarize performance on engagements during the year. The individual's progress, strengths, weaknesses, future objectives, and the firm's future objectives are among the items discussed. (See section 11,600.17.)
 - b. Results of evaluations are documented in the individual's personnel file.
3. The partners make advancement and termination decisions and document the results.

.09 Acceptance and Continuance of Clients

1. Our firm has established procedures for evaluation of prospective clients and for their acceptance as clients. (See section 11,600.18 for a New Client Acceptance Checklist which can be used for prospective clients.)

- a. Available financial information regarding the prospective client (such as annual reports, interim financial statements, and income tax returns) is obtained and reviewed.
- b. Inquiries about potential clients are made to bankers, attorneys, credit services, and others having business relationships with the company.
- c. Predecessor auditors, where applicable, are contacted and inquiries are made in accordance with generally accepted auditing standards.
- d. Consideration is given to circumstances that would cause the firm to regard the engagement as one requiring special attention or presenting unusual risks. These circumstances include the following:
 1. Audits where the expected man-hour requirement exceeds 150 hours
 2. Audits of firms operating in high-risk industries such as those industries where it is difficult to establish an adequate internal control structure or those industries whose operations are especially sensitive to general economic conditions
 3. Audits of firms in the development stage
 4. Audits of firms in serious financial difficulty
 5. Any of the conditions enumerated in 2a(3)
- e. The firm's independence and ability to adequately serve a potential client are evaluated prior to acceptance. In evaluating the firm's ability, consideration is given to the requirements for technical skills, knowledge of the industry, and personnel.
- f. A review is made to ensure that acceptance of the client would not violate applicable regulatory agency requirements and the code of professional conduct of the AICPA and/or the (state) CPA Society.
- g. Procedures for acceptance of a new engagement are as follows:
 1. The engagement partner assembles the information and evaluates all matters in the previous paragraphs.
 2. All engagements are approved in writing by the partners.

2. Clients are evaluated at the end of specific periods or upon the occurrence of certain events to determine whether the relationship should be continued. (See section 11,600.19 for a Client Evaluation Questionnaire which can be used for evaluating existing clients.)

a. Reevaluations of existing clients are made—

1. Annually, if any of the conditions mentioned in *1d* exist.
2. Every three years if none of the conditions mentioned in *1d* exist.
3. If there is a significant change in one or more of the following:
 - Management or ownership
 - Legal counsel
 - Financial condition
 - Litigation status
 - Nature of client's business
 - Scope of work
4. Upon the emergence of conditions that would have caused the firm to reject a client had such conditions existed at the time of the initial acceptance.

b. Based on the information obtained, both partners make the continuance decision.

.10 Inspection

1. The firm conducts an inspection program regarding its quality control policies and procedures. (See section 11,600.20 for a Summary Inspection Report which can be used to document the results of a firm's yearly quality review inspection and section 11,600.21 for an Inspection of Compliance with Policies and Procedures Relating to Elements of Quality Control.)

- a.* Each year the partners evaluate the firm's quality control policies and procedures for compliance with professional standards. This procedure includes a review of administrative and personnel files sufficient to obtain reasonable assurance that quality control policies and procedures are being complied with.
- b.* A sample of engagements is selected annually from each partner's client listing and is given an in-depth review by the other partner or by a staff member not otherwise associated with the engagement. The working papers and reports are reviewed for compliance with professional standards, including generally accepted auditing standards, generally accepted accounting principles, and with the firm's quality control policies and procedures.
- c.* Annually, the executive partner selects a representative report to be submitted for review to the practice review committee of the (state) Society or the AICPA.
- d.* Every third year the firm undergoes an AICPA quality control compliance review in accordance with AICPA Quality Control Standards. This takes the place of the firm's annual inspection requirement.

2. Provision is made for reporting inspection findings and for monitoring actions taken or planned.

- a. The results of engagement reviews are discussed with the personnel responsible for the engagement.
- b. Inspection findings and recommendations together with corrective actions taken or planned are discussed by the partners. A memorandum outlining the findings and recommendations is prepared and retained by the executive partner.
- c. The partners determine that planned corrective actions were taken.

.11 Description of the Firm's Professional Levels

<u>Level</u>	<u>Approximate Time Frame</u>
Staff Assistant	
Level 1	First year (0 to 1)
Level 2	Second and third year (2 to 3)
In-Charge Accountant	Fourth through eighth year (4 to 8)
Partner	After the eighth year

Staff Assistant (Level 1). A Level 1 staff assistant is expected to—

- Work on portions of audit and accounting engagements.
- Become familiar with the firm's policies and procedures.
- Know the rules, regulations, and code of conduct of the AICPA and the (state) Society of CPAs.
- Be familiar with pronouncements of the Financial Accounting Standards Board (FASB) and the AICPA such as the Statements on Auditing Standards (SASs) and Accounting Principles Board Opinions (APBs).
- Progress professionally by working toward passing the CPA examination as soon as possible.

Staff Assistant (Level 2). A Level 2 staff assistant is expected to—

- Assume full responsibility under supervision for small accounting engagements involving unaudited financial statements.
- Work on more involved portions of large audit and accounting engagements.
- Prepare financial statements.

In-Charge Accountant. An in-charge accountant is expected to—

- Assume full responsibility for small- and medium-size audit engagements requiring the services of one or two people and large accounting engagements involving unaudited financial statements.
- Work on (and research) assignments involving “theory” and such “conceptual” areas as materiality and interrelationships of accounts.
- Review and analyze the internal control structure.
- Prepare audit programs and time budgets.

- Be responsible for compliance with due dates and adherence to time budgets.
- Prepare management letters.
- Train and supervise the staff members assigned to the engagement.
- Recognize, in advance, the possible problem areas of an engagement.
- Pass the CPA examination, if not already certified.

.12 Stated Objectives of Firm (Philosophy)

A particular firm's stated objectives may include items such as the following:

- a.* Concern for the general public interest.
- b.* Concern for the financial well-being of clients.
- c.* Reinvestment of the firm's profits in the training and advancement of the firm's partners and staff.
- d.* Growth plans for the firm, including opening of branch offices, annual billings, and staff size.
- e.* Development of specialties such as auditing governmental units or concentration in particular fields—banks, agriculture, retail, and so forth.
- f.* Development of other services, such as a computer data processing center.
- g.* Centralization (or decentralization) of authority for issuance of reports.
- h.* Degree of operating autonomy for individual practice offices.
- i.* Extent of autonomy for partners.
- j.* Pattern for firm growth—internal growth through acquisitions of clients and growing apace with them or growth through mergers with other accounting firms.

AAM Section 11,300

Sample Quality Control Document for a Four-Partner Local CPA Firm

.01 Firm Background Information

Our firm has four partners, nine professional staff, and four clerical staff—a total of seventeen people. One partner has been designated as the executive partner and another as administrative partner. (A copy of our organization chart follows on the next page.)

Our executive partner founded the firm in 19XX, and our growth has been derived entirely from internal expansion. All of the other partners joined the firm as staff assistants and were promoted to partner level.

Our objective is to provide quality accounting, auditing, tax, and management advisory services to our clients.¹ To this end we expect to limit our practice to those clients we can properly serve. We intend to further develop expertise that will enable us to increase the number of clients that are municipalities and auto dealerships. Therefore, we plan to hire and train professional personnel who will be able to function to meet these goals.

We expect our growth to continue to be internal and to be limited to our present geographic practice area, a community we have served for nearly thirty-five years. We hope to retain our local identity and personal relationship with clients that are the foundations of our practice.

We hope to be a firm that is enjoyable and rewarding to work for. We intend to continue our involvement in and contribution to community and professional activities and organizations.

Our practice breakdown is as follows:

Auditing	33%
Unaudited financial statements	25
Taxes	25
Management advisory services	9
Other accounting services	8
	<u>100%</u>

Our practice is conducted from one office and is basically a general practice composed of the following types of clients:

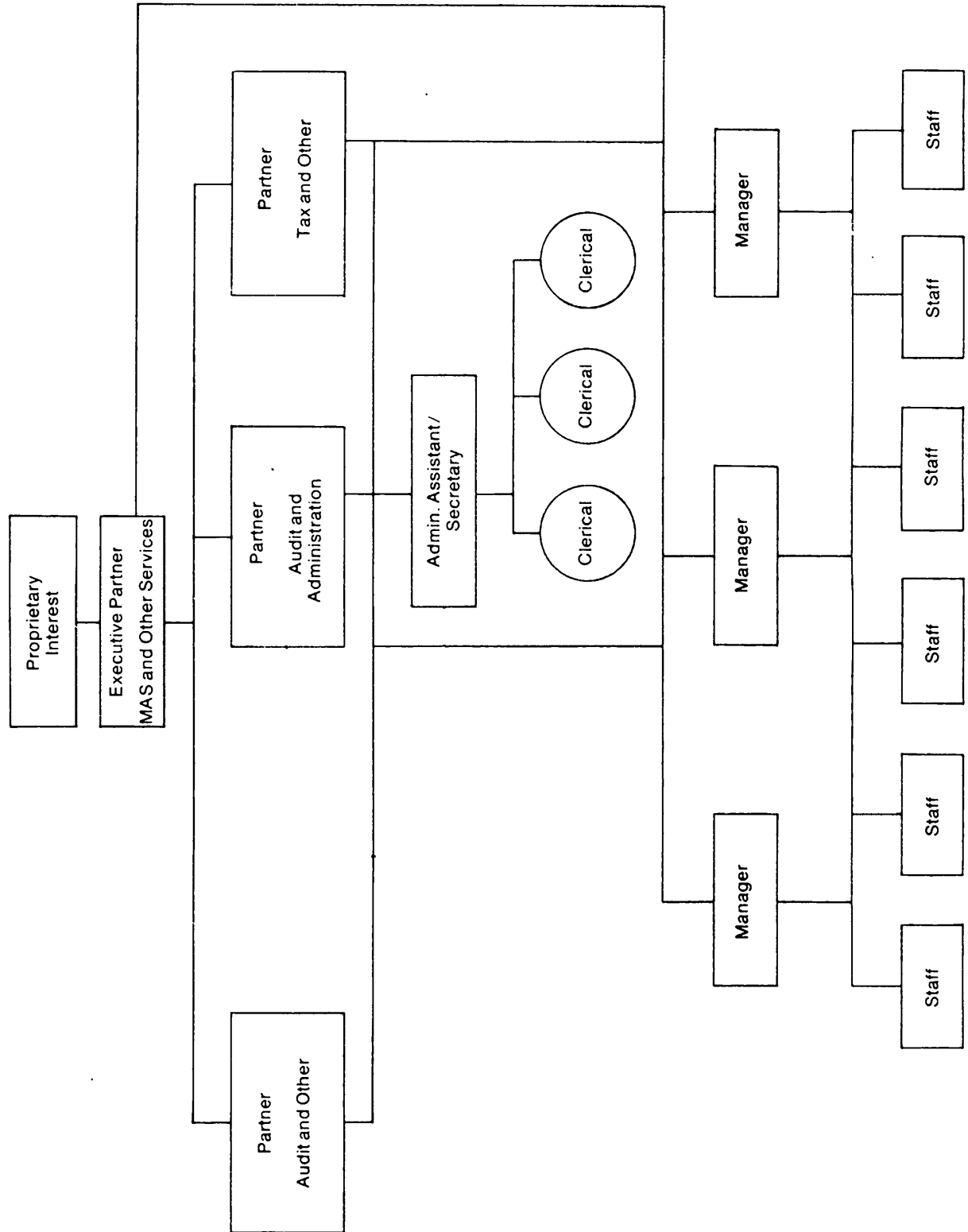
Audit engagements:

Publicly held corporations	Municipalities
Manufacturing companies	Unaudited statement engagements
Retail establishments	Other accounting services
Auto dealerships	

(Text continued on page 19)

¹Additional considerations for establishing a firm's stated objectives are discussed in section 11,300.12.

Organization Chart



For the benefit of our professional personnel, an accounting and auditing manual and a personnel manual are maintained. Both manuals are referred to in this document and are, in effect, an integral part of our quality control system.

November 1, 19XX

.02 Independence

1. All personnel are required to adhere to the independence rules, regulations, interpretations, and rulings of the AICPA, (state) CPA Society, (state) Board of Accountancy, state statutes, and for applicable engagements, the Securities and Exchange Commission and other regulatory agencies under which we practice.

- a. The executive partner is responsible for resolving questions relating to independence matters and is available to provide guidance when required.
- b. The executive partner communicates with the AICPA and/or the (state) CPA Society for assistance in resolving independence questions that are not satisfactorily resolved within the firm. (See section 11,600.07 for an example of a log, which can be utilized to document all communication with parties outside the firm, also see section 11,600.08 for a Consultation Worksheet, which can be used to document the subject matter as well as the response from the consultant.)
- c. A memo documenting the resolution of independence questions is prepared and retained by the executive partner. The other firm personnel involved in the questions review and initial the memo.

2. Policies and procedures relating to independence are communicated to all personnel.

- a. The personnel manual is used to inform personnel of the firm's independence policies and procedures and advise them that they are expected to be familiar with these policies and procedures. Rulings and interpretations of the AICPA, (state) CPA Society, (state) Board of Accountancy, state statutes, the Securities and Exchange Commission and other regulatory agencies under which we practice are referred to in the personnel manual.
- b. Independence of mental attitude is emphasized during training sessions and in the supervision and review of engagements.
- c. Our client list, which is periodically updated, is reviewed by all partners and professional employees to ensure that they are aware of those entities to which our independence policies apply. The executive partner is responsible for maintenance and distribution of the list.
- d. The firm's library contains professional, regulatory, and firm literature relating to independence matters.²

²The appropriate information may be found in *AICPA Professional Standards*, volume 2, in regulation S-X and Accounting Series Releases of the Securities and Exchange Commission, rulings and interpretations of the state CPA societies, the state boards of accountancy, and state statutes.

3. Independence is confirmed when another firm is engaged to perform a segment of an engagement for which we are the principal auditor.
 - a. The form and content of the independence representation that is to be obtained from a firm that has been engaged to perform segments of an engagement is part of the firm's accounting and auditing manual. (See section 11,600.02.)
 - b. An annual representation of independence should be obtained from an affiliate or associate firm on a repeat engagement.
4. Compliance with policies and procedures relating to independence is monitored.
 - a. Confirmations are obtained annually (see section 11,600.01 for an example of an Independence Checklist for Employees) by the administrative partner from personnel and upon employment from newly hired personnel confirming that—
 1. They are familiar with our firm's independence policies and procedures.
 2. Prohibited investments are not held and were not held during the period.
 3. Prohibited relationships do not exist.
 4. Transactions prohibited by the firm have not occurred.
 - b. The executive partner is responsible for the resolution of exceptions to the firm's independence policies and procedures.
 - c. The executive partner designates a partner to perform an annual review each July of the independence compliance files for completeness and the firm's independence policies and procedures for compliance with professional standards. A report of findings is presented to all the partners.
 - d. Accounts receivable that are past due are reviewed monthly by the executive partner to ascertain whether any outstanding amounts take on some of the characteristics of loans and may, therefore, impair the firm's independence.

.03 Assigning Personnel to Engagements

1. Our firm's approach to assigning personnel includes the planning of overall firm needs and the measures employed to achieve a balance of engagement manpower requirements, personnel skills, individual development, and utilization.
 - a. On a quarterly basis all partners submit to the administrative partner a projection containing anticipated manpower requirements for engagements during the coming quarter for which they have client responsibilities. (See section 11,600.03 for an example of a form which may be used for this purpose.) Such projections are detailed as to number and classification of individuals required and are supported by preliminary engagement time estimates. The administrative partner prepares a summary schedule of assignments to be made for approval by the partners.
 - b. For every engagement where the anticipated time exceeds ten man-days, a time budget is normally prepared under the direction of the engagement partner at least a month prior to the scheduled commencement of field work. Time budgets for smaller engagements are prepared as considered necessary by the engagement partners. The

budgets provide detail as to appropriate staff level and time required by function such as cash, accounts receivable, inventory, and so forth.

- c. The engagement partner considers the following factors to achieve a balance of engagement manpower requirements, personnel skills, individual development, and utilization:
 - 1. Engagement size and complexity
 - 2. Personnel availability
 - 3. Special expertise required
 - 4. Timing of the work to be performed
 - 5. Continuity and periodic rotation of personnel
 - 6. Opportunities for on-the-job training
- 2. The administrative partner is responsible for assigning personnel to engagements.
 - a. Before the assignment of a professional employee to an engagement, the following criteria are considered:
 - 1. Staffing and timing requirements of the specific engagement
 - 2. Evaluations of the qualifications of personnel as to experience, position, background, and any special expertise possessed (see section 11,600.04)
 - 3. The planned extent of supervision and involvement by managers and partners
 - 4. Projected time availability of individuals assigned
 - 5. Situations where possible independence problems and conflicts of interest may exist, such as assignment of personnel to engagements for clients who are former employers or employers of certain kin
 - b. The administrative partner attempts to achieve a balance between the need for continuity and for periodic rotation of personnel.
- 3. The engagement partner approves the scheduling and staffing of the engagement.
 - a. The names of personnel assigned to an engagement are submitted to the engagement partner for approval.
 - b. The engagement partner considers the experience and training of the assigned personnel in relation to complexity or other engagement requirements, and the extent of supervision to be provided.
 - c. Unresolved assignment conflicts between an engagement partner and the administrative partner are resolved by the executive partner.

.04 Consultation

1. Areas and specialized situations where consultation is required are identified, and personnel are encouraged to consult with or use authoritative sources on complex or unusual matters.

- a. All personnel are advised of our firm's consultation policies and procedures. These

policies and procedures are incorporated into the firm's accounting and auditing manual.

- b.* A listing of certain areas or specialized situations, which because of the nature or complexity of the subject have been identified as requiring consultation, is updated semiannually by the administrative partner for inclusion in the accounting and auditing manual. The following areas and situations receive special consideration in preparing the list:
 - 1. Application of newly issued technical pronouncements.
 - 2. Industries with special accounting, auditing, or reporting requirements.
 - 3. Emerging practice problems.
 - 4. Choices among alternative generally accepted accounting principles when an accounting change is to be made.
 - 5. Filing requirements of regulatory agencies.
 - c.* A technical reference library is maintained to assist personnel in resolving practice problems. The administrative partner is charged with the responsibility of reviewing semiannually the library contents and making necessary additions.
 - d.* Supervisory personnel are encouraged to seek advice from partners and managers the firm has designated as specialists in particular areas when confronted with a situation in the specialist's area of expertise.
 - e.* When expertise is not available within the firm, a practice question or problem is referred by the engagement partner to the Technical Information Division of the AICPA or the (state) CPA Society established to handle technical inquiries.
 - f.* We maintain a consultation agreement with the local office of (firm name) CPAs to provide our firm with additional expertise. Inquiries to that firm are channeled through the administrative partner.
 - g.* The results of outside consultation are reviewed by the engagement partner and the executive partner before a decision is reached on the matter in question.
 - h.* An example of a log which can be utilized to maintain a listing of consultations is shown in section 11,600.07. This log can be put in the workpapers to document consultants utilized on the engagement as well as to maintain control for follow-up documentation from the specific consultant used.
 - i.* An example of a worksheet which can be used to document the consultations with specialists is shown in section 11,600.08.
2. Specific individuals are designated as having specialized experience and expertise in certain technical areas. These individuals are available for consultation to all personnel.
- a.* A listing of firm designated specialists together with their particular expertise is updated annually and included in the accounting and auditing manual.
 - b.* The following procedures are used to resolve differences of opinion on practice problems:
 - 1. Differences of opinion between a professional employee and an engagement partner are brought before the appropriate designated specialist.

2. If the specialist agrees with the engagement partner, the matter is considered resolved.
 3. If the specialist disagrees with the engagement partner and they are unable to agree on an appropriate resolution, the executive partner is consulted.
 - c. The engagement partner is responsible for the preparation of a memorandum documenting the considerations involved in the resolution of differences of opinion. The original of the memorandum is filed with the engagement working papers and a reference copy without identification of the client is placed in the subject file maintained in the library. Any party to the discussion who disagrees with the conclusion has the option of preparing a memorandum and filing it with the working papers.
3. In situations where firm policy requires consultation with specialists, a summary of the consultation conclusions and the reasons for the conclusions is required.
- a. The accounting and auditing manual is used to inform personnel of the extent of documentation required and the responsibility for its preparation (see section 11,600.07).
 - b. Consultation worksheets (see section 11,600.08) are filed with the engagement working papers, and a copy is placed in the subject file maintained in the library under the supervision of the administrative partner. The subject file is maintained in the event that similar questions arise in connection with the same topics.

.05 Supervision

1. All engagements are adequately planned by persons knowledgeable about the client and/or the type of engagement. (For additional information on planning, review AAM section 3000 or TIPS 2, *Audit Planning*.)
 - a. For all annual recurring audit and accounting engagements where the anticipated manpower requirement is in excess of ten man-days, the in-charge accountant or manager reviews with the engagement partner the following documents from the prior year's files (as applicable) to determine if modifications are appropriate:
 1. Engagement letter
 2. Time budget compared with actual time expended
 3. Evaluation of the internal control structure
 4. Audit or work program
 5. Engagement memorandums
 6. Financial statements and accountant's report
 7. Management letters
 8. Planning memorandum
 - b. On all engagements in excess of ten man-days, including annual recurring engagements, new engagements, and special engagements, the in-charge accountant or manager submits to the engagement partner the following, where applicable, for his written approval:

1. Engagement letter
 2. Time budget
 3. Preliminary evaluation of the internal control structure
 4. Audit or work program
 5. A memorandum stating the manpower requirements (including the need for specialized knowledge), current economic conditions affecting the client or its industry, and any other special problems that may have an impact on the conduct of the engagement
 6. Planning memorandum
2. Procedures are provided for maintaining the firm's standards of quality for the work performed.
- a. Depending upon each individual's background in relationship to his assignment, varying degrees of supervision are provided by proper engagement staffing. (See section 11,600.04.)
 - b. Each staff member receives an accounting and auditing manual upon joining the firm and is responsible for the proper filing of updates as they are issued.
 - c. Differences of opinion among staff members working on an engagement are brought to the attention of the engagement partner. If the partner agrees with the senior party in the dispute, the matter is considered resolved. If no resolution is made, the executive partner is consulted. Any party to the discussion who disagrees with the conclusion has the option of preparing a memorandum and filing it with the working papers.
3. All engagement working papers and reports are reviewed by appropriate supervisory personnel prior to issuance of the report. (For additional information on Supervision, review AAM section 9000.)
- a. The in-charge accountant and/or manager reviews and initials all working papers he did not prepare (including those prepared by a partner). The engagement partner reviews the overall engagement (initialing all working papers not reviewed by a manager and working papers dealing with difficult and complex subjects) including financial statements and accountant's report, and discusses with the in-charge accountant or manager any critical audit areas and unusual accounting matters encountered during the course of the engagement. This discussion is documented by a memorandum when appropriate.
 - b. In certain circumstances (as enumerated at section 11,300.09 item 1d) prior to the issuance of the financial statements and the auditor's report thereon, a second partner not otherwise associated with the engagement evaluates the appropriateness of financial statement disclosures and the auditor's report in relation to the material discussed in the engagement partner's memorandum.

.06 Hiring

1. The firm maintains a program designed to obtain qualified personnel by planning for personnel needs, establishing hiring objectives, and setting qualifications for those involved in the hiring function.

- a. The administrative partner and the executive partner plan (at least annually) the firm's long-range personnel objectives. Current clientele, anticipated growth, personnel turnover, individual advancement, and retirement are among the factors considered. This plan considers the number and qualifications of personnel as well as the sources and methods for obtaining personnel who meet the requirements and guidelines set by the firm.
 - b. The administrative partner is responsible for employment decisions.
- 2. Our firm has established qualifications and guidelines for evaluating potential hires at each professional level. (See section 11,600.09 for an example of a Pre-Employment Application which can be used to determine the individual's qualifications and section 11,600.10 for an example of an Interview Report which can be used to document the interviewer's comments about individuals interviewed for positions within the firm.)
 - a. Our firm seeks to employ individuals who possess high levels of intelligence, integrity, honesty, motivation, and aptitude for the profession.
 - b. Our firm normally employs college and business college graduates with a concentration in accounting as full-time permanent members of our professional and paraprofessional staff.
 - c. Newly employed staff members are from the top half of their college class, unless other factors such as personal achievements, work experience, and personal interests indicate the likelihood of adequate professional development.
 - d. Our firm requires that a professional staff applicant's academic preparation will enable him to meet the academic requirements to sit for the CPA examination as administered by the (state) Board of Accountancy.
 - e. The approval of the executive partner is required before making an employment offer in atypical situations, such as hiring relatives of personnel or clients, rehiring former employees, or hiring clients' employees.
 - f. The background of new employees is appropriately investigated to reasonably assure hiring persons with acceptable qualifications, by obtaining completed application forms, college transcripts, and personal references.
 - g. Applicants for positions above entry level are interviewed and approved by the executive partner in addition to the administrative partner before an employment decision is made.
- 3. Applicants and new personnel are informed of the firm's policies and procedures relevant to them.
 - a. The firm's personnel policies and procedures relevant to applicants are communicated to them before offers of employment are extended.
 - b. The administrative partner maintains and distributes to all personnel a personnel manual describing policies and procedures.
 - c. The administrative partner discusses the firm's personnel policies and procedures with new employees.

.07 Professional Development

1. Guidelines and requirements have been established for the firm's professional development program and are communicated to all personnel.
 - a. The administrative partner is responsible for the formulation and implementation of firm policy regarding the guidelines and requirements for the firm's professional development programs.
 - b. As part of their orientation, newly employed personnel are informed of their professional responsibilities and opportunities by the administrative partner.
 - c. Newly employed personnel with limited experience are sent to introductory level training sessions of the AICPA or the (state) Society of CPAs during their first year of employment with our firm.
 - d. Each partner and professional employee is required to complete a minimum of 40 hours of continuing professional education each year. (Firms should determine the specific requirements of their State Board of Accountancy.) Personnel complete the record of professional development form and forward it to the administrative partner. (See section 11,600.11.) The administrative partner is responsible for having the personnel files of each partner and professional employee updated to include a current record of hours of professional development completed. (See section 11,600.12–.13.) The types of programs qualifying for the fulfillment of the 40-hour requirement include—
 1. Continuing professional education programs of the AICPA and the (state) Society of CPAs. This includes both sessions attended and cassette/workbook or workbook programs, as long as there is written evidence of completion.
 2. College courses related to the profession.
 - e. Personnel are reimbursed for membership dues paid to the AICPA, the (state) Society of CPAs, and our local chapter of the state society.
 - f. Personnel are encouraged to serve on state society or AICPA committees, write articles for professional publications, serve as discussion leaders at professional development seminars, give speeches, and so forth.
 - g. The executive partner annually reviews the firm's professional development program (including personnel participation records) to determine whether it is adequately meeting the firm's needs, providing for the professional growth of individuals, and meeting mandatory continuing education requirements. An annual report is made to the partners.
2. Information about current developments in professional technical standards and materials containing the firm's technical policies and procedures are made available to personnel. Personnel are encouraged to engage in self-development activities.
 - a. It is the responsibility of the administrative partner to distribute information about current developments in accounting and auditing to all personnel who do not receive them directly. This distribution includes statements and interpretations issued by the Financial Accounting Standards Board, the Governmental Accounting Standards Board, the AICPA, the Auditing Standards Board, and so forth.
 - b. Pronouncements relating to areas of specific interest, such as those issued by the

Securities and Exchange Commission, Internal Revenue Service, and other regulatory agencies are distributed by the appropriate specialist to persons who have responsibilities in such areas.

- c.* The administrative partner, as the firm's lead technician, is responsible for maintaining an accounting and auditing manual containing firm policies and procedures on technical matters. Updates are prepared and issued to the staff as new developments and conditions arise.
 - d.* The firm does not, at present, conduct formal in-house training programs other than in specialized areas. However, from time to time personnel participate in the training programs of the AICPA and (firm name) CPAs.
 - e.* A library of staff training cassette/workbook programs published by the AICPA and (state) Society of CPAs is maintained by the administrative partner for self-study and reference purposes and is available to all personnel.
- 3. The firm provides programs to fill its needs for personnel with expertise in specialized areas and industries.
 - a.* The administrative partner is responsible for arranging in-house programs on SEC matters, cost accounting, and municipal accounting for personnel involved in these areas.
 - b.* Individuals designated as having specialized experience and expertise are encouraged to maintain their proficiency by joining appropriate professional associations and attending external professional education programs.
 - c.* The firm will pay for memberships in organizations concerned with specialized areas or industries in which the firm is engaged or intends to become engaged.
 - d.* The administrative partner is responsible for maintaining technical literature on specialized areas and industries.
- 4. The firm recognizes that on-the-job training accounts for a significant part of professional development.
 - a.* Personnel with in-charge responsibility on engagements—
 - 1. Discuss with assistants the relationship of the work they are performing to the engagement as a whole.
 - 2. Permit assistants, when practicable, to become involved in areas of the engagement other than those previously assigned.
 - 3. Explain to assistants the reasons for any additional work requirements discovered through the review process.
 - b.* Personnel are evaluated in part on their effectiveness to properly train and develop subordinates.
 - c.* The administrative partner monitors assignments to determine that personnel are—
 - 1. Fulfilling, where applicable, the experience requirement of the (state) Board of Accountancy.
 - 2. Gaining experience in various areas of engagements and varied industries.
 - 3. Working under different supervisory personnel.

.08 Advancement

1. Our firm has established qualifications deemed necessary for the various levels of responsibility within the firm.

a. The levels of responsibility that are inherent in the various staff classifications are clearly defined. Our firm has provided for the following staff classifications.³

1. Manager
2. In-charge accountant
3. Staff assistant

b. The criteria which are considered in evaluating individual performance and expected proficiency are enumerated in our staff classification guidelines contained in the personnel manual.

c. Our firm's personnel manual provides the staff with information regarding the firm's advancement policies and procedures. The administrative partner issues updates from time to time to reflect changes made by the partnership in the policies and procedures.

2. The performance of our personnel is continuously evaluated, and personnel are periodically advised of their progress. Personnel files are maintained containing documentation relating to the evaluation process.

a. Professional employees assigned to an engagement for a period in excess of five days must be evaluated by their immediate superior on the engagement by use of an evaluation form. (See section 11,600.14–.15 for examples of Evaluation Forms, which may be used for periodic evaluation of staff members. The differences in the forms relate to the amount of time spent on a particular engagement. For example, if a staff member spends 40 or more hours on an engagement a more thorough evaluation can usually be performed [section 11,600.14]. Section 11,600.16 would be utilized to evaluate the management skills of the individual being evaluated and therefore does not include specific duties relating to the assignment of work performed.) These evaluation forms are reviewed with the employee at the end of the engagement and are approved by the engagement partner.

b. Personnel are assigned to engagements in a manner that assures they will be reviewed by several people during the course of a year.

c. Personnel with the responsibility for the preparation of evaluations are counseled (at least annually) by the administrative partner to ensure that they understand the firm's objectives.

d. All professional employees receive an evaluation of their performance at least once a year. Such counseling interviews are conducted by the administrative partner. These evaluations summarize the evaluations received on engagements during the year. The individual's progress, strengths, weaknesses, future objectives, and the firm's future objectives are among the items discussed. The interviews are documented in each individual's personnel file.

³The description of the firm's professional levels, with the responsibilities for each level and the general length of time required for advancement to the next position, can be found in section 11,300.11.

- e. Annually, each partner completes a partner evaluation form evaluating each of the partners, including himself. The completed forms are submitted to the executive partner who summarizes and reviews them with each partner.
- f. The executive partner or his designee reviews (each August) the system of personnel evaluation and counseling to ascertain that—
 - 1. Procedures for evaluation and documentation are being followed on a timely basis.
 - 2. Requirements established for advancement are being met.
 - 3. Personnel decisions are consistent with evaluations.
 - 4. Recognition is given to outstanding performance.

At the completion of the review, a report is made to the partners.

- 3. Responsibility for making advancement decisions is assigned to specific individuals.
 - a. The administrative partner is responsible for making advancement and termination recommendations, conducting the evaluation interviews, documenting the results of the interviews, and maintaining appropriate records.
 - b. The partners evaluate the above data and, after giving appropriate recognition to the quality of the work performed, make advancement decisions. The executive partner has the ultimate responsibility for making advancement decisions.
 - c. The executive partner studies the firm's advancement experience annually to ascertain whether individuals meeting stated criteria are assigned increased degrees of responsibility. A report is made to the partners. This report includes the executive partner's opinion of the capabilities and progress of the staff.

.09 Acceptance and Continuance of Clients

- 1. Our firm has established procedures for evaluation of prospective clients and for their acceptance as clients. (See section 11,600.18 for a New Client Acceptance Checklist, which can be used for prospective clients.)
 - a. Available financial information regarding the prospective client, such as annual reports, interim financial statements, reports to regulatory agencies, and income tax returns is obtained and reviewed. Registration statements and 10-K forms are obtained for public companies.
 - b. Inquiries about potential clients are made to bankers, attorneys, credit services, and others having business relationships with the company.
 - c. Predecessor auditors (if applicable) are contacted and inquiries are made in accordance with generally accepted auditing standards.
 - d. Consideration is given to circumstances that would cause the firm to regard the engagement as one requiring special attention or presenting unusual risks. These circumstances include—
 - 1. Audits of publicly held corporations
 - 2. Audits where the expected man-hour requirement exceeds 300 hours
 - 3. Audits of firms operating in high-risk industries, such as those industries where it is

difficult to establish an adequate internal control structure or those industries whose operations are especially sensitive to general economic conditions

4. Audits of firms in the development stage
 5. Audits of firms in serious financial difficulty
 6. Any of the conditions enumerated in 2a(3)
- e. The firm's independence and ability to adequately serve a potential client are evaluated prior to acceptance. In evaluating the firm's ability, consideration is given to the requirements for technical skills, knowledge of the industry, and availability of qualified personnel.
 - f. A review is made to ensure that acceptance of the client would not violate applicable regulatory agency requirements and the code of professional conduct of the AICPA and/or the (state) CPA Society.
 - g. Procedures for acceptance of a new engagement are as follows:
 1. The engagement partner assembles the information and evaluates all matters described in the previous paragraphs.
 2. For all audit engagements, or engagements described in paragraph (d) above, the acceptance is to be approved in writing by the engagement partner and the executive partner.
 3. All other engagements are to be approved in writing by the engagement partner and the administrative partner.
 - h. The administrative partner is responsible for administering the procedures for acceptance of clients. The executive partner performs an annual review for compliance with the firm's policies and procedures for acceptance of clients and makes a report to the partners.
2. Clients are evaluated at the end of specific periods or upon the occurrence of certain events to determine whether the relationship should be continued. (See section 11,600.19 for a Client Evaluation Questionnaire, which can be used for evaluating existing clients.)
- a. Reevaluations are made of existing clients—
 1. Annually, if any of the conditions mentioned in 1d above exist.
 2. Every three years if none of the conditions mentioned in 1d above exist.
 3. If there is a significant change in one or more of the following:
 - Management
 - Directors
 - Ownership
 - Legal counsel
 - Financial condition
 - Litigation status
 - Nature of client's business
 - Scope of the auditor's work

4. Upon the emergence of conditions that would have caused the firm to reject a client had such conditions existed at the time of the initial acceptance.
- b. The administrative partner is responsible for evaluating the information obtained, making continuance recommendations, and administering firm procedures for continuance of clients. If the administrative partner recommends discontinuance or if any of the conditions enumerated in 2a(3) above or (4) above exist, all partners participate in the continuance decision.
- c. The executive partner performs an annual review to test for compliance with the firm's policies and procedures for continuance of clients and makes a report to the partners.

.10 Inspection

1. The firm conducts an inspection program regarding its quality control policies and procedures. (See section 11,600.20 for a Summary Inspection Report, which can be used to document the results of a firm's yearly quality review inspection, and section 11,600.21 for an Inspection of Compliance with Policies and Procedures Relating to Elements of Quality Control.)
 - a. Each year a partner and a manager not otherwise directly involved in firm administration are appointed by the executive partner as an inspection team to evaluate the firm's quality control policies and procedures for compliance with professional standards.
 - b. The appointed partner and manager obtain reasonable assurance that quality control policies and procedures are being complied with by—
 1. Inquiring of persons responsible for a function or activity.
 2. Reviewing selected administrative and personnel files.
 3. Reviewing selected engagement working paper files and reports (described below).
 4. Reviewing other evidential matter.
 - c. A sample of engagements is selected annually from each partner's and manager's client listing and is given an in-depth review by the inspection team. The administrative partner reviews engagements of the partner and manager involved in the inspection process to ensure that a representative sample of engagements from all partners and managers has been selected. The working papers and reports are reviewed for compliance with professional standards, including generally accepted auditing standards, generally accepted accounting principles, and the firm's quality control policies and procedures.
 - d. The executive partner annually selects a representative report to be submitted for review to the practice review committee of the (state) Society and/or the AICPA.
 - e. Every third year the firm undergoes an AICPA quality control compliance review, in accordance with the AICPA Quality Control Standards. The executive partner is responsible for scheduling the review and ensuring that all partners participate in the knowledge gained by the reviews. This review takes the place of the firm's annual inspection.
2. Provision is made for reporting inspection findings to the appropriate management levels and for monitoring actions taken or planned.

- a. The results of engagement reviews are discussed with the supervisory personnel responsible for the engagement.
- b. Inspection findings and recommendations are reported to the partners by the inspection team together with corrective actions taken or planned. A memo outlining the findings and recommendations is prepared by the inspection team and is retained by the executive partner.
- c. The executive partner has the responsibility to determine that planned corrective actions were taken and to report the extent of compliance to all the partners.

.11 Description of the Firm's Professional Levels

<u>Level</u>	<u>Approximate Time Frame</u>
Staff Assistant	
Level 1	First year (0 to 1)
Level 2	Second year (1 to 2)
In-Charge Accountant	Third, fourth, fifth (3 to 5)
Audit Manager	Sixth through tenth year (6 to 10)
Partner	After the tenth year

Staff Assistant (Level 1). A Level 1 staff assistant is expected to—

- Work on portions of audit and accounting engagements.
- Become familiar with the contents of the firm manuals.
- Know the rules, regulations, and code of conduct of the AICPA and the (state) Society of CPAs.
- Be familiar with the pronouncements of the Financial Accounting Standards Board (FASB) and the AICPA, such as the Statements on Auditing Standards (SASs) and Accounting Principles Board Opinions (APBs).
- Progress professionally by working toward passing the CPA examination as soon as possible.

Staff Assistant (Level 2). A Level 2 staff assistant is expected to—

- Assume full responsibility under supervision for small accounting engagements involving unaudited financial statements.
- Work on more involved portions of large audit and accounting engagements.
- Prepare financial statements.

In-Charge Accountant. An in-charge accountant is expected to—

- Assume full responsibility for small and medium-size audit engagements requiring the services of one or two people and large accounting engagements involving unaudited financial statements.
- Work on (and research) assignments involving “theory” and such “conceptual” areas as materiality and interrelationships of accounts.

- Review and analyze internal control.
- Prepare audit programs and time budgets.
- Prepare management letters.
- Train and supervise the staff assistants assigned to the engagement.
- Recognize, in advance, the possible problem areas of an engagement.
- Pass the CPA examination, if not already certified.

Manager. A manager is a CPA and is expected to—

- Assume full responsibility for large audit assignments falling within his expertise.
- Supervise the assignment of duties to, and the training of, personnel assigned to the engagement.
- Supervise a number of engagements at one time.
- In connection with engagements, be responsible for personnel scheduling, compliance with due dates, and monitoring time budgets.
- Adequately review all working papers and the completed reports to ascertain that both meet firm standards.
- Resolve all problems prior to the submission of the report for final partner review.
- Communicate firm policies and technical information to accounting and auditing personnel through individual or group meetings.
- Motivate and assist staff in their professional development.
- Represent the firm in professional and service organizations.
- Develop the firm's reputation and his own through conducting seminars, making speeches, and the like.
- Assist partners with practice development and practice management.

.12 Stated Objectives of Firm (Philosophy)

A particular firm's stated objectives may include items such as the following:

- a. Concern for the general public interest.
- b. Concern for the financial well-being of clients.
- c. Reinvestment of the firm's profits in the training and advancement of the firm's partners and staff.
- d. Growth plans for the firm, including opening of branch offices, annual billings, and staff size.
- e. Development of specialties such as auditing governmental units or concentration in particular fields—agriculture, retail, and so forth.

- f.* Development of other services, such as a computer data processing center.
- g.* Centralization (or decentralization) of authority for issuance of reports.
- h.* Degree of operating autonomy for individual practice offices.
- i.* Extent of autonomy for partners.
- j.* Pattern for firm growth—internal growth through acquisitions of clients and growing apace with them or growth through mergers with other accounting firms.

AAM Section 11,400

Sample Quality Control Document for a Sole Practitioner CPA Firm Without Full-Time Staff

.01 Firm Background Information

My firm was founded in 19XX after I had gained several years' experience with a local CPA firm. A secretary and a student from the local university are employed on a part-time basis during the busy season.

My objective is to provide quality service in accounting, auditing, income tax, and financial advisory capacities to small businesses in my community. I do not serve publicly held companies, nor do I plan to do so. It is anticipated that the firm's future growth will be through expanded service to present clients and the addition of new clients.¹ I intend to hire and train personnel as needed.

My practice is conducted from one office and consists of five audit engagements, for which we are the sole auditors, twelve unaudited financial statement engagements, and fifteen clients for which my firm provides other accounting services.

May 31, 19XX

.02 Independence

Any part-time staff and I are required to adhere to the independence rules, regulations, interpretations, and rulings of the AICPA, (state) CPA Society, (state) Board of Accountancy, and state statutes.

- a. I communicate with the AICPA and/or the (state) CPA Society for assistance, if needed, in resolving independence questions. (See section 11,600.07 for an example of a log, which can be utilized to document all communication with parties outside the firm. Also, see section 11,600.08 for a Consultation Worksheet, which can be used to document the subject matter as well as the response from the consultant.)
- b. My part-time staff completes an independence checklist for employees when they are hired. The purpose of the checklist is to determine each part-time staff member's independence and to document the same.
- c. A memorandum documenting the resolution of independence questions is prepared and retained. My part-time employee reviews and initials the memorandum if the question relates to his or her independence.

¹Additional considerations for establishing a firm's stated objectives are discussed in section 11,400.11.

- d. Accounts receivable that are past due are reviewed monthly to ascertain whether any outstanding amounts take on some of the characteristics of loans and may, therefore, impair the firm's independence.
- e. Our library contains professional, regulatory, and firm literature relating to independence matters.²

.03 Assigning Personnel to Engagements

Assignment of personnel includes the planning of overall firm needs and the measures employed to achieve a balance of engagement manpower requirements, personnel skills, individual development, and utilization.

On an annual basis, normally in October of each year, I develop a projection of anticipated manpower requirements to determine if I will need additional staff during the coming year. This is performed by utilizing a "Client History of Staff Assignments" (section 11,600.05), which lists by client the amount of time expended in prior years. (It should be noted that the form in section 11,600.05 can be adapted to be used for a sole practitioner as well as a large firm.)

.04 Consultation

1. Areas and specialized situations where consultation is required are identified, and personnel are encouraged to consult with or use authoritative sources on complex or unusual matters.

- a. A technical reference library is maintained, and I have made arrangements to use the libraries of other practicing CPAs. The AICPA library is also used on a frequent basis.
- b. When presented with a practice question or problem that I may lack the particular expertise to resolve, I refer to the Technical Information Division of the AICPA or the (state) CPA Society established to handle technical inquiries, or I may confer with another CPA who has expertise in the area.

2. In those areas and specialized situations where firm policy requires consultation with specialists, a summary of the consultation conclusions and the reasons for the conclusions is required. (See section 11,600.08.)

Consultation summaries are filed with the engagement working papers. (See section 11,600.07.)

.05 Supervision

1. All engagements are adequately planned, and procedures are provided for maintaining the firm's standards of quality for the work performed. (For additional information on planning, review AAM section 3000 or TIPS 2, *Audit Planning*.)

- a. On all recurring engagements, I annually review the following documents from the prior year's files, as applicable, to determine if modifications are appropriate:

²The appropriate information may be found in *AICPA Professional Standards*, volume 2, and in rulings and interpretations of the state CPA societies, the state boards of accountancy, and state statutes.

1. Engagement letter
2. Time budget compared with actual time expended
3. Evaluation of the internal control structure
4. Audit or work program
5. Engagement notes and memorandums
6. Financial statement and accountant's report
7. Management letters
8. Planning memorandum

The foregoing items are prepared, where applicable, for new and special engagements, and a memorandum is prepared stating special problems, if any, that may have an impact on the conduct of the engagement.

- b.* Copies of forms, checklists, and questionnaires are available for use on engagements.
2. All engagement working papers and reports are reviewed prior to issuing the report. (For additional information on supervision, see AAM section 9000.)
 - a.* I review and initial the work of my part-time employee.
 - b.* I review and initial my own work after waiting at least until the following day.
 - c.* Checklists are utilized for reviewing engagement working papers and reports.

.06 Hiring

1. The firm endeavors to obtain qualified personnel and has established qualifications and guidelines for evaluating potential hires. (See section 11,600.09 for an example of a Pre-Employment Application, which can be used to determine the individual's qualifications, and section 11,600.10 for an example of an Interview Report, which can be used to document the interviewer's comments about individuals interviewed for positions within the firm.)
 - a.* During my busy season, I normally employ a college senior who has completed substantially all of the accounting curriculum course requirements for graduation.
 - b.* I interview potential employees and appropriately investigate their backgrounds to reasonably assure my hiring persons with acceptable qualifications.
2. New personnel are informed of the firm's policies and procedures relevant to them.

A copy of this quality control document is presented to newly hired personnel.

.07 Professional Development

1. I have an annual professional development requirement.
 - a.* I am a member of the AICPA and the (state) CPA Society and participate in professional activities.
 - b.* I complete a minimum of forty hours of formal continuing professional education each year in areas related to my practice. (Firms should determine the specific requirements

of their State Board of Accountancy.) A record of professional development hours is maintained, updated, and periodically reviewed. (See section 11,600.11.) The types of programs qualifying for the fulfillment of the forty-hour requirement include—

1. Continuing professional education programs of the AICPA and the (state) CPA Society. These include sessions attended and, with written evidence of completion, cassette/workbook, or workbook programs.
2. College courses related to the profession.

2. Information about current developments in professional technical standards and materials containing the firm's technical policies and procedures are made available to personnel.

I receive and review information relating to current developments in accounting and auditing including statements and interpretations issued by the Financial Accounting Standards Board, the Governmental Accounting Standards Board, the AICPA Auditing Standards Board, and other AICPA technical committees.

3. On-the-job training accounts for a significant part of professional development.

I provide for on-the-job training by discussing with my part-time employee the relationship of his work to the engagement as a whole. Also, during my review of working papers prepared by my part-time employee, I explain the need for any additional work requirements discovered through the review process.

.08 Advancement

The element of advancement is inapplicable because the firm uses only part-time staff.

.09 Acceptance and Continuance of Clients

1. Procedures are established for evaluation of prospective clients and for their acceptance as clients. (See section 11,600.18 for a New Client Acceptance Checklist, which can be used for prospective clients.)

- a. I obtain and review available financial information regarding the prospective client (such as annual and interim financial statements and income tax returns).
- b. I make inquiries about potential clients to bankers, attorneys, credit services, and others having business relationships with the company.
- c. I contact predecessor auditors, where applicable, and make inquiries in accordance with generally accepted auditing standards.
- d. I consider circumstances that would cause the firm to regard the engagement as one requiring special attention or presenting unusual risks. These circumstances include—
 1. Audits where the expected man-hour requirement exceeds seventy-five hours.
 2. Audits of firms operating in high-risk industries, such as those industries where it is difficult to establish an adequate internal control structure or those industries whose operations are especially sensitive to general economic conditions.
 3. Audits of firms in the development stage.

4. Audits of firms in serious financial difficulty.
 5. Audits of firms experiencing change in any of the following: management or ownership, legal counsel, financial condition, litigation status, nature of business, or scope of engagement.
 - e. I evaluate the firm's independence and ability to adequately serve a potential client. In evaluating the firm's ability, I give consideration to the requirements for technical skills, knowledge of the industry, and personnel.
 - f. A review is made to ensure that acceptance of the client would not violate applicable regulatory agency requirements and the code of professional conduct of the AICPA and/or the (state) CPA Society.
 - g. I assemble, evaluate, and document the items listed above before making an acceptance decision.
2. Clients are evaluated at the end of specific periods or upon the occurrence of certain events to determine whether the relationship should be continued. (See section 11,600.19 for a Client Evaluation Questionnaire, which can be used for evaluating existing clients.)
- a. Reevaluations of existing clients are made—
 1. Annually, if any of the conditions mentioned in 1d above exist.
 2. Every three years if none of the conditions mentioned in 1d above exist.
 3. Upon the emergence of conditions that would have caused me to reject a client had such conditions existed at the time of the initial acceptance.
 - b. I prepare an annual memorandum documenting the evaluations.

.10 Inspection

1. The firm conducts an inspection program regarding its quality control policies and procedures. (See section 11,600.20 for a Summary Inspection Report, which can be used to document the results of a firm's yearly quality review inspection, and section 11,600.21 for an Inspection of Compliance With Policies and Procedures Relating to Elements of Quality Control.)

Each year, I evaluate the firm's quality control policies and procedures for compliance with professional standards by use of AICPA and/or (state) Society checklists. This procedure includes a review of administrative, personnel, and engagement files sufficient to obtain reasonable assurance that quality control policies and procedures are being complied with.

The inspection is not conducted during years in which the firm receives a peer review.

2. The firm adheres to the quality control standards that have been established by the AICPA.

Every three years there is a quality review of the firm's accounting and auditing practice. This review is performed by either a peer firm qualified to perform the review or a team assembled for the review purpose.

3. Provision is made for reporting inspection findings and for monitoring actions taken or planned.

I evaluate inspection findings and recommendations together with suggested corrective actions and prepare and retain a memorandum documenting that the inspection has been performed. Appropriate corrective actions, if any, are taken.

.11 Stated Objectives of Firm (Philosophy)

A particular firm's stated objectives may include items such as the following:

- a.* Concern for the general public interest
- b.* Concern for the financial well-being of clients
- c.* Reinvestment of the firm's profits in the training and advancement of personnel
- d.* Growth plans including opening of branch offices, annual billings, and staff size
- e.* Development of specialties such as auditing governmental units or concentration in particular fields—agriculture, retail, and so forth
- f.* Development of other services such as a computer data processing center
- g.* Pattern for firm growth—internal growth through acquisitions of clients and growing apace with them or growth through mergers with other accounting firms

AAM Section 11,500

Sample Quality Control Document for a Sole Practitioner CPA Firm With Full-Time Staff

.01 Firm Background Information

The firm was founded in 19XX after the proprietor gained several years' experience with a local CPA firm. Presently, our full-time staff consists of two professional employees and a secretary. One per diem accountant is hired during the busy season. An accounting student and a secretary are available on a part-time basis, as needed.

The firm's objectives are to—

- Provide high-quality accounting, auditing, tax, and management advisory services to growth-oriented companies in our geographic area.
- Serve clients with outstanding business potential and to help each company reach its maximum potential through sound and efficient accounting, financial, and management advice.
- Be actively involved in professional, business, community, and civic affairs.
- Offer close, personalized service on a timely basis.

In order to achieve these goals and objectives, the firm seeks to grow through a combination of expanded service to present clients and the addition of new clients on a regular basis.¹

Our practice is conducted from one office, and our audit clientele, for which our firm is the sole auditor, consists of six retail establishments, three manufacturing companies, three service companies, and two nonprofit organizations. In addition, we have twenty-eight unaudited statements clients and twenty clients for whom we provide other accounting services.

May 31, 19XX

.02 Independence

1. All personnel are required to adhere to the independence rules, regulations, interpretations, and rulings of the AICPA, (state) CPA Society, (state) Board of Accountancy, and state statutes.

- a. Mr. (practitioner) is responsible for resolving questions relating to independence matters and is available to provide guidance when required.

¹Additional considerations for establishing a firm's stated objectives are discussed in section 11,500.11.

- b. Mr. (practitioner) communicates with the AICPA and/or the (state) CPA Society for assistance in resolving independence questions that are not satisfactorily resolved within the firm. (See section 11,600.07 for an example of a log, which can be utilized to document all communication with parties outside the firm. Also see section 11,600.08 for a Consultation Worksheet, which can be used to document the subject matter, as well as the response from the consultant.)
 - c. A memorandum documenting the resolution of independence questions is prepared and retained by Mr. (practitioner); the other firm personnel review and initial the memorandum if the question relates to their independence.
2. Policies and procedures relating to independence are communicated to all personnel.
 - a. Memorandums are used to inform personnel of the firm's independence policies and procedures and to advise them that they are expected to be familiar with those policies and procedures. Rulings and interpretations of the AICPA, (state) CPA Society, (state) Board of Accountancy, and state statutes are also made available to personnel.
 - b. An independent mental attitude is emphasized during the conduct of engagements.
 - c. I review the current client listing with each new employee to ensure that the employee is aware of those entities to which independence policies apply. During the monthly staff meeting, the staff is informed of any changes in the listing.
 - d. Our library contains professional, regulatory, and firm literature relating to independence matters.²
3. Compliance with policies and procedures relating to independence is monitored.
 - a. Annually, all staff members are required to complete a questionnaire (see section 11,600.01), indicating that—
 1. They are familiar with the firm's independence policies and procedures.
 2. They are not now nor have been holding prohibited investments.
 3. They are not now nor have been involved in relationships or transactions that are prohibited.
 - b. Mr. (practitioner) is responsible for the resolution of exceptions to the firm's policies and procedures relating to independence.
 - c. Accounts receivable that are past due are reviewed monthly by Mr. (practitioner) to ascertain whether any outstanding amounts take on some of the characteristics of loans and may, therefore, impair the firm's independence.

1. Our firm's approach to assigning personnel includes the planning of overall firm needs and the measures employed to achieve a balance of engagement manpower requirements, personnel skills, individual development, and utilization.

- a.* On an annual basis, normally in September of each year, Mr. (practitioner) develops a projection containing anticipated manpower requirements for the next year. (See section 11,600.06.)
- b.* In scheduling assignments, Mr. (practitioner) strives to achieve a balance of engagement manpower requirements, personnel skills, individual development, and utilization, taking into consideration—
 - 1. Engagement size and complexity
 - 2. Personnel availability
 - 3. Special expertise required
 - 4. Timing of the work to be performed
- 2. Mr. (practitioner) is responsible for assigning personnel to engagements. (See section 11,600.04–.05 for examples of forms, which can be used to facilitate assigning personnel to specific engagements.)
 - a.* Before the assignment of a professional employee to an engagement, Mr. (practitioner) considers the nature of the engagement, personnel availability, extent of supervision required, and possible independence problems or conflicts of interest.
 - b.* To the extent practicable, Mr. (practitioner) attempts to achieve a balance between the need for continuity and for periodic rotation of staff.

.04 Consultation

- 1. Areas and specialized situations where consultation is required are identified, and personnel are encouraged to consult with or use authoritative sources on complex or unusual matters.
 - a.* All personnel are advised of our firm's consultation policies and procedures. These policies and procedures are set forth in a memorandum.
 - b.* Certain areas or specialized situations have been identified as requiring consultation because of their nature or complexity. They include the following:
 - 1. Application of newly issued technical pronouncements.
 - 2. Industries with special accounting, auditing, or reporting requirements.
 - 3. Emerging practice problems.
 - 4. Choices among alternative generally accepted accounting principles when an accounting change is to be made.
 - c.* A technical reference library is maintained, and arrangements have been made to use the libraries of other practicing CPAs. The resources of the AICPA library are drawn upon when needed.
 - d.* When expertise is not available within the firm, practice questions and problems are referred by Mr. (practitioner) to the Technical Information Division of the AICPA or the (state) CPA Society established to handle technical inquiries.
 - e.* We maintain a consultation agreement with the local office of (firm name) CPAs, to

provide us with additional expertise. Inquiries to that firm are channeled through Mr. (practitioner).

2. In those areas and specialized situations where firm policy requires consultation with specialists, a summary of the consultation conclusions and the reasons for the conclusions are required.

- a. The consultation policy memorandum is used to inform personnel of the consultation procedures, the extent of documentation required, and the responsibility for its preparation.
- b. Consultation worksheets (see section 11,600.08) are filed with the engagement working papers.

.05 Supervision

1. All engagements are adequately planned. (For additional information on planning, review AAM section 3000 or TIPS 2, *Audit planning*.)

- a. On all annual recurring engagements, the staff accountant reviews with Mr. (practitioner) (or Mr. [practitioner] reviews alone) the following documents from the prior year's files, as applicable, to determine if modifications are appropriate:

1. Engagement letter
2. Time budget compared with actual time expended
3. Evaluation of the internal control structure
4. Audit or work program
5. Engagement notes and memorandums
6. Financial statements and accountant's report
7. Management letters
8. Planning memorandum

- b. For all engagements (including annual recurring engagements, new engagements, and special engagements), the staff accountant submits to Mr. (practitioner) the following, where applicable, for his written approval, or Mr. (practitioner) prepares, where applicable, the following:

1. Engagement letter
2. Time budget
3. Preliminary evaluation of the internal control structure
4. Audit or work program
5. A memorandum stating the special problems, if any, that may have an impact on the conduct of the engagement
6. Planning memorandum

2. Procedures are provided for maintaining the firm's standards of quality for the work performed.

- a. Depending upon each individual's background in relation to his assignment, varying degrees of supervision are provided.
 - b. Copies of forms, checklists, and questionnaires are available for use on engagements.
 - c. Differences of opinion among staff members working on an engagement are resolved by Mr. (practitioner). Any party to the discussion who disagrees with the conclusion has the option of preparing a memorandum and filing it with the working papers.
- 3. All engagement working papers and reports are reviewed prior to issuance of the report. (For additional information on supervision, review AAM section 9000.)
 - a. The staff accountant reviews and initials all working papers he did not prepare (excluding those prepared by Mr. (practitioner)).
 - b. Mr. (practitioner) reviews the overall engagement (including his own working papers after waiting at least one day following their preparation) by completing a review checklist.

.06 Hiring

- 1. The firm endeavors to obtain qualified personnel by planning for personnel needs and establishing hiring objectives.
 - a. Mr. (practitioner) annually plans the firm's long-range personnel objectives. Current clientele, anticipated growth, personnel turnover, individual advancement, and retirement are among the criteria considered.
 - b. Mr. (practitioner) makes the employment decisions.
- 2. Our firm has established qualifications and guidelines for evaluating potential hirees. (See section 11,600.09 for an example of a Pre-Employment Application, which can be used to determine the individual's qualifications, and section 11,600.10 for an example of an Interview Report, which can be used to document the interviewer's comments about individuals interviewed for positions within the firm.)
 - a. Our firm seeks to employ individuals with high levels of intelligence, integrity, honesty, motivation, and aptitude for the profession.
 - b. Our firm normally employs college and business college graduates with a concentration in accounting as full-time permanent members of its professional and paraprofessional staff. The following general criteria are considered in hiring decisions:
 - 1. Academic background
 - 2. Personal achievements
 - 3. Work experience
 - 4. Personal interests
 - c. Our firm normally expects that a professional staff applicant's academic preparation will enable him to meet the academic requirements to sit for the CPA examination as administered by the (state) Board of Accountancy.
 - d. The backgrounds of potential employees are appropriately investigated to reasonably

assure our hiring persons with acceptable qualifications by obtaining completed application forms, college transcripts, personal references, and employment references.

- e. Potential employees are interviewed by Mr. (practitioner) who informs them about the firm.
3. New personnel are informed of the firm's policies and procedures relevant to them.
- a. Mr. (practitioner) discusses the firm's personnel policies and procedures with new employees.
 - b. A copy of this quality control document is presented to newly hired personnel.

.07 Professional Development

1. Guidelines and requirements have been established for the firm's professional development program and are communicated to all personnel.

- a. Mr. (practitioner) and any eligible staff are members of the AICPA and the (state) CPA Society; they also participate in professional activities.
- b. Mr. (practitioner) is responsible for the formulation and implementation of guidelines and requirements for professional development.
- c. As part of their orientation, new employees are informed of professional responsibilities and opportunities by Mr. (practitioner).
- d. Mr. (practitioner) and the full-time professional employees are required to complete a minimum of 40 hours of formal continuing professional education each year. (Firms should determine the specific requirements of their State Board of Accountancy.) Personnel complete the record of professional development form (see section 11,600.11) and forward it to Mr. (practitioner). He reviews the form and has it filed in the individual's personnel file. The types of programs qualifying for the fulfillment of the 40-hour requirement include—
 - 1. Continuing professional education programs of the AICPA and the (state) CPA Society. This includes sessions attended and, with written evidence of completion, cassette/workbook or workbook programs.
 - 2. College courses related to the profession.
- e. Mr. (practitioner) annually reviews and approves the firm's professional development program (including personnel participation records) to determine whether it is adequately meeting the firm's needs, providing for the professional growth of individuals, and meeting mandatory continuing education requirements. (See section 11,600.12–.13.)

2. Information about current developments in professional technical standards and materials containing the firm's technical policies and procedures are made available to personnel. Personnel are encouraged to engage in self-development activities.

It is the responsibility of Mr. (practitioner) to distribute statements relating to current developments in accounting and auditing to all personnel not receiving them directly. This includes statements and interpretations issued by the Financial Accounting Standards Board,

the Governmental Accounting Standards Board, the AICPA Auditing Standards Board, and other AICPA technical committees.

3. The firm recognizes that on-the-job training accounts for a significant part of professional development.

- a. Mr. (practitioner) provides for on-the-job training by discussing with the engagement staff the relationship of the work they are performing to the engagement as a whole. Also, during the review of working papers prepared by staff members, the proprietor explains the need for any additional work requirements discovered through the review process.
- b. When practicable, professional employees are assigned to varying engagement areas.
- c. Assignments are monitored to determine that personnel are fulfilling, where applicable, the experience requirements of the (state) Board of Accountancy.

.08 Advancement

1. The performance of our personnel is continuously evaluated, and personnel are periodically advised of their progress. Personnel files are maintained containing documentation of the evaluation process.

- a. At least annually, all professional employees receive an evaluation of their performance. (See section 11,600.14–.15 for examples of Evaluation Forms, which may be used for periodic evaluation of staff members. The differences in the forms relate to the amount of time spent on a particular engagement. For example, if a staff member spends 40 or more hours on an engagement, a more thorough evaluation can usually be performed (section 11,600.14). Section 11,600.16 would be utilized to evaluate the management skills of the individual being evaluated and therefore does not include specific duties relating to the assignment of work performed.) Such counseling interviews are conducted by Mr. (practitioner). These evaluations summarize performance on engagements during the year. The individual's progress, strengths, weaknesses, future objectives, and the firm's future objectives are among the items discussed.
- b. Results of evaluations are documented in the individual's personnel file.

2. Mr. (practitioner) makes advancement and termination decisions and documents the results.

.09 Acceptance and Continuance of Clients

1. Our firm has established procedures for evaluation of prospective clients and for their acceptance as clients. (See section 11,600.18 for a New Client Acceptance Checklist, which can be used for prospective clients.)

- a. Available financial information regarding the prospective client (such as annual and interim financial statements and income tax returns) is obtained and reviewed.
- b. Inquiries about potential clients are made to bankers, attorneys, credit services, and others having business relationships with the company.

- c. Where applicable, predecessor auditors are contacted, and inquiries are made in accordance with generally accepted auditing standards.
 - d. Consideration is given to circumstances that would cause the firm to regard the engagement as one requiring special attention or presenting unusual risks. These circumstances include—
 - 1. Audits where the expected man-hour requirement exceeds ninety hours.
 - 2. Audits of firms operating in high-risk industries, such as those industries where it is difficult to establish an adequate internal control structure or those industries whose operations are especially sensitive to general economic conditions.
 - 3. Audits of firms in the development stage.
 - 4. Audits of firms in serious financial difficulty.
 - 5. Audits of firms experiencing change in any of the following: management or ownership, legal counsel, financial condition, litigation status, nature of business, or scope of engagement.
 - e. The firm's independence and ability to adequately serve a potential client are evaluated prior to its acceptance. In evaluating the firm's ability, consideration is given to the requirements for technical skills, knowledge of the industry, and personnel.
 - f. A review is made to ensure that acceptance of the client would not violate applicable regulatory agency requirements and the codes of professional conduct of the AICPA and/or the (state) CPA Society.
 - g. Mr. (practitioner) assembles, evaluates, and documents the applicable foregoing considerations before making an acceptance decision.
2. Clients are evaluated at the end of specific periods or upon the occurrence of certain events to determine whether the relationship should be continued. (See section 11,600.19 for a Client Evaluation Questionnaire, which can be used for evaluating existing clients.)
- a. Reevaluations of existing clients are made—
 - 1. Annually, if any of the conditions mentioned in 1(d) above exist.
 - 2. Every three years if none of the conditions mentioned in 1(d) above exist.
 - 3. Upon the emergence of conditions that would have caused the firm to reject a client had such conditions existed at the time of the initial acceptance.
 - b. Based on the information obtained, Mr. (practitioner) makes the continuance decision and documents it with a memorandum.

.10 Inspection

- 1. The firm conducts an inspection program regarding its quality control policies and procedures. (See section 11,600.20 for a Summary Inspection Report, which can be used to document the results of a firm's yearly quality review inspection, and section 11,600.21 for an Inspection of Compliance With Policies and Procedures Relating to Elements of Quality Control.)

Using AICPA and/or (state) Society checklists, Mr. (practitioner) annually evaluates the firm's quality control policies and procedures for compliance with professional standards. This procedure includes a review of administrative, personnel, and engagement files sufficient to obtain reasonable assurance that quality control policies and procedures are being complied with.

The inspection is not conducted during years in which the firm receives a peer review.

2. The firm adheres to the quality control standards that have been established by the AICPA.

Every three years there is a quality review of the firm's accounting and auditing practice. This review is performed by either a peer firm qualified to perform the review or a team assembled for the review purpose.

3. Provision is made for reporting inspection findings and for monitoring actions taken or planned.

Mr. (practitioner) evaluates the inspection findings and recommendations together with suggested corrective actions and prepares and retains a memorandum documenting that the inspection has been performed. Appropriate corrective actions, if any, are taken.

.11 Stated Objectives of Firm (Philosophy)

A particular firm's stated objectives may include items such as the following:

- a.* Concern for the general public interest.
- b.* Concern for the financial well-being of clients.
- c.* Reinvestment of the firm's profits in the training and advancement of personnel.
- d.* Growth plans including opening of branch offices, annual billings, and staff size.
- e.* Development of specialties such as auditing governmental units or concentration in particular fields—agriculture, retail, and so forth.
- f.* Development of other services such as a computer data processing center.
- g.* Pattern for firm growth—internal growth through acquisitions of clients and growing apace with them or growth through mergers with other accounting firms.

AAM Section 11,600

Sample Quality Control Forms

.01 Independence Checklist for Employees

Office _____

Employee name _____

In order to determine that the firm and its employees are in compliance with the independence rules, regulations, interpretations and rulings of the AICPA, the State CPA Society, the State Board of Accountancy, and state statutes the following must be completed by _____ (date) and returned to _____ as noted at the end of the form. If there are any questions you have related to the completion of the form, or if there is a matter that has come to your attention which may impair the firm's independence, please contact Mr. J. Partner to resolve the problem.

	<u>Yes</u>	<u>No</u>
1. Do you have a direct or indirect material financial interest in a client* or its subsidiaries and affiliates?	_____	_____
2. Do you have a financial interest in any major competitors, investees, or affiliates of a client*?	_____	_____
3. Do you have any outside business relationship with a client* or an officer, director, or principal stockholder having the objective of financial gain?	_____	_____
4. Do you owe any client* any amount, except a normal consumer note payable or home mortgage made by a financial institution under normal lending procedures, terms, and requirements?	_____	_____
5. Do you have a note or account receivable from a client*, except for a deposit in a financial institution?	_____	_____
6. Do you have the authority to sign checks for a client*?	_____	_____
7. Are you connected with a client* as a promoter, underwriter or voting trustee, director, officer or in any capacity equivalent to a member of management or an employee?	_____	_____
8. Do you serve as a director, trustee, officer, or employee of a nonprofit organization that is a present client*?	_____	_____
9. Has your spouse or minor child been employed by a client*?	_____	_____
10. Has anyone in your legal family, or any blood relative, been employed in any type of managerial position by a client*?	_____	_____
11. Are any billings delinquent for clients* that are your responsibility?	_____	_____

I have read the Firm's Independence Policy and AICPA standards. I believe I understand the independence policy and standards. I am in compliance except for the exceptions listed below. (Exceptions to policies: A "Yes" answer to the independence checklist is an exception. Give details as to names, addresses, amounts (relationships of amounts to your net worth is relevant), etc. Leaving the space blank indicates you have no exceptions.)

Arrangements made to dispose of above exceptions to comply with policies:

_____ Signature	_____ Date	_____ Reviewer's initials
_____ Exceptions approved by	_____ Location	

Instructions: Sign and return to _____ within one week after starting work. Annually, a new form must be completed during the first week of September.

*Client. The enterprise with whose financial statements the member is associated.

.02 Independence and Representation Checklist for Other Auditors

Office _____

Firm name _____

In order to determine that your firm is in compliance with the independence standards, regulations, interpretations and rulings of the AICPA, the State CPA Society, the State Board of Accountancy, and state statutes the following must be completed by _____ (date) and returned to _____ as noted at the end of the form. If there are any questions you have related to the completion of the form, or if there is a matter that has come to your attention which may impair your firm's independence, please contact Mr. J. Partner to resolve the problem.

- | | <u>Yes</u> | <u>No</u> |
|--|------------|-----------|
| 1. We are aware that <u>[Name of primary auditor]</u> has been engaged to audit the financial statements of <u>[Name of parent]</u> as of <u>[Date]</u> and for the <u>[period, e.g., year]</u> then ended. | _____ | _____ |
| 2. We are aware that <u>[Name of primary auditor]</u> plans to rely on our audit of the financial statements of <u>[Name of subsidiary or component]</u> as of <u>[Date]</u> and for the <u>[period, e.g., year]</u> then ended. | _____ | _____ |
| 3. <u>[We are aware that the primary auditor will refer to our report in their report.]</u> | _____ | _____ |
| 4. We are independent with respect to <u>[Name of both the parent and subsidiary or component.]</u> | _____ | _____ |

Partner of other audit firm

Date

Reviewed by:

Partner of primary audit firm

.03 Scheduling Request

Client _____ Engagement No. _____ Year End _____

Partner _____ Manager _____ Tax Ptr/Mgr _____

Personnel Requested	Experience Level	Interim			Year End			Total
		From	Thru	Hours	From	Thru	Hours	
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____

Audited? Yes _____ No _____

Estimated total hours:

SEC? Yes _____ No _____

Partner _____

Manager _____

Staff _____

Industry _____

Total _____

Can dates be adjusted?

Yes _____ No _____

Explain _____

Can personnel be changed?

Yes _____ No _____

Explain _____

Comments _____

Requested by _____ Date _____ Scheduled _____ Date _____

Assignment
Manager

.04 History of Staff Assignments

Name _____

Client/ Location	Dates		Responsibility Level	Assignment Description				
	Interim	Year End		Total Hours	Industry	SEC	Audit Areas Performed	Reported to
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____

Staff member	Carry- forward	Month	Month of _____										Hours for month		
			Nonworking hours					Nonrecurring assignments							
			Staff assignments	Vacation	Holiday	Prof Comp	CPA exam	Tax Review	Other client #	Total assign	Avail- able	(Over)			
Aston	XX	XX	XX	X	X	X				XXXXXX	X	XXX	X	XX	
Barry	XX	X	XX	X	X		X						XXX	XX	X
Casey	X	X	X	X			X	X					XXX	XX	XX
Davis	XX	X	X	X	X	X	X	X	X	XXXXXXX	XX	XXXX	XX	(XX)	
Evans	X	X	X	X	X					XXXXXXXX	XX	XXXX		(XX)	
Frank	XX	X	X	X	X	X	X	X	X	XXXXXXXX	XX	XXXX	X	(XX)	
Louis	XX	X	XX	X	X	X		X				XXX	XX	XX	
Miceli	XX	X	XX	XX	X	X	X	X				XXX	XX	XX	
Total	XXXX	XX	XXX	XXX	XX	XX	XX	XX	XX	XX	XXX	XXX	XXX	XXX	XXX

.07 Consultation Log

[illegible]

.08 Consultation Worksheet

Date _____

Client Name _____

Engagement _____

Consultant _____

Subject _____

Consultant [*Cite professional literature discussed and conclusion of consultant*] _____

Resolution _____

Senior/Manager

Date

Partner

Date

PRE-EMPLOYMENT APPLICATION					
NAME				DATE	
ADDRESS					
TELEPHONE NUMBER			SOCIAL SECURITY NUMBER		
POSITION APPLIED FOR					
FIRST CHOICE		SECOND CHOICE		MINIMUM SALARY REQUIRED: \$	
<input type="checkbox"/> Full Time <input type="checkbox"/> Permanent Part Time <input type="checkbox"/> Temporary <input type="checkbox"/> Summer Temporary					
REFERRED BY <input type="checkbox"/> Newspaper ad _____ NAME _____ <input type="checkbox"/> Agency _____ NAME _____ <input type="checkbox"/> Friend _____ NAME _____ <input type="checkbox"/> Other _____ NAME _____					
EDUCATIONAL BACKGROUND — <input type="checkbox"/> See Below <input type="checkbox"/> See Attached Resume					
	NAME & LOCATION OF SCHOOL	MAJOR COURSE	YEARS ATTENDED		YEAR GRAD.
			FROM	TO	
Elementary					
High or Vocational					
Business or Technical					
College					
Graduate					
ADDITIONAL SKILLS OR MACHINE KNOWLEDGE <input type="checkbox"/> See Below <input type="checkbox"/> See Attached Resume					

[illegible]

.10

INTERVIEW REPORT	DAY _____
	DATE _____
	TIME _____
NAME OF APPLICANT _____	
POSITION APPLIED FOR _____	
COMMENTS BY INTERVIEWER:	
RECOMMENDED ACTION:	
INTERVIEWED BY: _____ TITLE: _____	
PLEASE RETURN TO HUMAN RESOURCES AS SOON AS POSSIBLE	

Note: See exhibit 303-6 of the AICPA MAP Handbook for an alternative.

.11 Record of Professional Development

Name _____ Employee No. _____

Out-of-Office Courses:

	<u>Sponsor</u>	<u>Course description</u>	<u>No. of hours</u>	<u>Date completed</u>
1.	_____	_____	_____	_____
2.	_____	_____	_____	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____
7.	_____	_____	_____	_____
8.	_____	_____	_____	_____
9.	_____	_____	_____	_____
10.	_____	_____	_____	_____

In-House Programs:

	<u>Instructor</u>	<u>Course description</u>	<u>No. of hours</u>	<u>Date completed</u>
1.	_____	_____	_____	_____
2.	_____	_____	_____	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____
7.	_____	_____	_____	_____
8.	_____	_____	_____	_____
9.	_____	_____	_____	_____
10.	_____	_____	_____	_____

.12 19XX Professional Development

Summary (in hours) In-House presentations

	<u>Developed in-house</u>	<u>Purchased programs</u>	<u>Outside courses</u>	<u>Total</u>
Partners/Owners				
1. _____	_____	_____	_____	_____
2. _____	_____	_____	_____	_____
3. _____	_____	_____	_____	_____

In-House presentations

	<u>Developed in-house</u>	<u>Purchased programs</u>	<u>Outside courses</u>	<u>Total</u>
Professional staff				
1. _____	_____	_____	_____	_____
2. _____	_____	_____	_____	_____
3. _____	_____	_____	_____	_____
4. _____	_____	_____	_____	_____
5. _____	_____	_____	_____	_____
6. _____	_____	_____	_____	_____
7. _____	_____	_____	_____	_____
8. _____	_____	_____	_____	_____
Paraprofessionals				
1. _____	_____	_____	_____	_____
2. _____	_____	_____	_____	_____
3. _____	_____	_____	_____	_____
4. _____	_____	_____	_____	_____

.13 19XX Professional Development

Summary (in dollars)

	<u>Purchased programs for in-house use</u>	<u>Outside courses</u>	<u>Total</u>
Partners/Owners			
1. _____	\$ _____	\$ _____	_____
2. _____	_____	_____	_____
3. _____	_____	_____	_____
Professional staff			
1. _____	_____	_____	_____
2. _____	_____	_____	_____
3. _____	_____	_____	_____
4. _____	_____	_____	_____
5. _____	_____	_____	_____
6. _____	_____	_____	_____
7. _____	_____	_____	_____
8. _____	_____	_____	_____
Paraprofessionals			
1. _____	_____	_____	_____
2. _____	_____	_____	_____
3. _____	_____	_____	_____
4. _____	_____	_____	_____

.14 Performance Evaluation

[To be completed after each engagement of forty hours or more.]

Name _____ Classification _____

Client _____ From _____ To _____

Describe work assigned: _____

In your opinion based on the staff member's classification, should this assignment be considered:

Demanding ☐

Routine ☐

This individual is ☐ is not ☐ ready for increased responsibility. Explain _____

Rating: Enter comments which describe the staff member's performance on this engagement. Rate the staff member on each of the items below as Outstanding (O), Very High (VH), Good (G), Below Normal (BN), or Not Applicable (NA).

[Support each caption with specific incidents or remarks.]

Technical Knowledge: Did the staff member possess adequate technical knowledge to function effectively at the level assigned? Did this knowledge encompass accounting principles, auditing standards, and tax accounting? Has the staff member kept current on recent developments and new pronouncements on professional practice matters as they affected this engagement?

Rating: O VH G BN NA
☐ ☐ ☐ ☐ ☐

Analytical Ability and Judgment: How well did the staff member recognize problems, develop relevant facts, formulate alternative solutions, and decide on appropriate conclusions? Did the staff member distinguish between material and immaterial items? Was the staff member practical in adapting theory and experience to the individual circumstances of this client?

Rating: O VH G BN NA
☐ ☐ ☐ ☐ ☐

**Written and Oral
Expression:**

Evaluate the effectiveness of the staff member's letters, memoranda, and other forms of written communication. In conversation, did the staff member communicate intentions effectively? Were instructions understood the first time? Did the staff member sell ideas, obtain acceptance and action?

Rating: O VH G BN NA
 ☐ ☐ ☐ ☐ ☐

Performance:

Can you depend on the staff member for sustained, productive work? Were assignments organized and completed accurately in a reasonable amount of time? Did the staff member readily assume responsibility? Did the staff member meet time estimates and document work papers properly?

Rating: O VH G BN NA
 ☐ ☐ ☐ ☐ ☐

**Development of
Personnel:**

In assigning work, did the in-charge staff member make the most effective use of available talent in terms of getting the work done and in terms of developing staff members performing the work? Did the in-charge staff member tend to make assignments which were either too easy or too hard for his subordinates? Was the staff member readily accepted as a leader? Was the staff member effective in on-the-job coaching?

Rating: O VH G BN NA
 ☐ ☐ ☐ ☐ ☐

Client Relations:

How well did the staff member relate to this client and gain his acceptance? How well did the staff member recognize and take advantage of practice development opportunities, through extension of services to this client?

Rating: O VH G BN NA
 ☐ ☐ ☐ ☐ ☐

Attitude:

Did the staff member demonstrate a positive and professional approach to the assignment? Was this demonstrated by sustained effort in completing work? Was the assignment undertaken with

enthusiasm and zest? Did the staff member respond in a positive way to suggestions and guidance from superiors? To what degree did the staff member make personal sacrifices to meet client requirements? Was the staff member a helpful member of the team? Did the staff member go out of his way to help an associate?

Rating: ☐ O ☐ VH ☐ G ☐ BN ☐ NA
 ☐ ☐ ☐ ☐ ☐

**Personal
Characteristics:**

Did the staff member possess self-confidence and was this confidence projected in an acceptable way? Were positive impressions created with this client and with associates? Did the staff member have a keen sense of what to do or say (tact)? Were clothes appropriate to professional work? Was the staff member well groomed?

Rating: ☐ O ☐ VH ☐ G ☐ BN ☐ NA
 ☐ ☐ ☐ ☐ ☐

Strong points which were evident: _____

Recommendations for improvement: _____

Comments of Staff Member Being Evaluated: _____

Signatures:

Evaluated staff member _____ Date _____

Evaluator _____ Title _____ Date _____

Engagement manager _____ Date _____

Partner _____ Date _____

JOB EVALUATION REPORT
[For Assignments of Thirty (30) Hours or More]

Name _____

Location _____

Engagement _____

Assistant _____ In-Charge _____

A. PERFORMANCE ON THE JOB**1. Technical Ability Demonstrated**

- a) The purpose of the audit procedures planned was understood
- b) Materiality was neither underestimated nor overestimated
- c) Accounting theory and current releases of the profession were applied correctly
- d) Federal and state income tax regulations were applied correctly

2. Working Paper Evidence

- a) Documentation of work performance, including adequate indexing and cross referencing ...
- b) Sound explanations and conclusions
- c) Use of standard work papers
- d) Legibility
- e) Accuracy — absence of mathematical errors

3. Completing This Job

- a) Meeting planned time estimates
- b) Completing reports and tax returns
- c) Following up the reviewer's comments and making the necessary changes

4. Client Reaction on This Job

- a) Getting along with the client's employees
- b) Interest in the client's business

B. ENGAGEMENT ADMINISTRATION — (For In-Charge Accountants Only)**1. Effectiveness of Proper Planning**

- a) Extent that the scope of the work related to internal control
- b) Developing the work program

2. Utilizing Staff Effectively and Efficiently

- a) Advance planning to minimize crises
- b) Efficient use of staff on the job
- c) On-the-job training of assistants

3. Meeting Deadlines

- a) Completing the engagement in the planned time
- b) Delivering completed pencil copies of the report and tax returns to the supervisor as agreed

4. The Product

- a) Quality of report preparation, including adequate and informative disclosures
- b) Quality of the management advice recommendations

5. Practice Management

- a) Extending services
- b) Ease of collecting for services performed

Compared to Others in Peer Group						
	A	A-	B+	B	B-	C
SUPERIOR						
EXCELLENT						
ABOVE AVERAGE						
SATISFACTORY						
IMPROVEMENT DESIRED						
IMPROVEMENT REQUIRED						
UNSATISFACTORY						
NOT APPLICABLE						

Knowledge and Skill Form
(and Profile of Management Role Performance)

Staff member evaluated			Date					
Evaluator			<i>Indicate most effective and least effective roles by placing a check in the far left or right hand column (maximum of two each). For the other five traits, indicate relative strength of staff member by placing a check in columns 2, 3, or 4.</i>					
(Circle at least two but not more than four in each section and indicate the effectiveness of each trait.)			If you wish, add your own words.	Effectiveness				
				Least		Most		
				1	2	3	4	5
Planner Careful Imaginative Routine Constant	Sloppy Foresighted Erratic Cautious	Thorough Infrequent Last-minute Meticulous						
Problem solver Analytical Critical Hasty Slow	Consistent Faulty Creative Quick	Superficial Routine Reliable Successful						
Communicator Warm Inhibited Thorough Expressive	Sloppy Weak Receptive Efficient	Cold Unstructured Patient Precise						
Leader Dominating Uncertain Weak Loose	Excitable Permissive Fair Amiable	Partial Energetic Heavy-handed Sure						
Decision maker Decisive Slow Quick Frequent	Lone Avoider Seldom Rash	Delayer Reliable Participative Dependent						
Trainer Systematic Patient Sloppy Off-on	Unprepared Efficient Diligent Slow	Conscientious Knowledgeable Disinterested Enthusiastic						
Team member Cooperative Influential Conformist Forceful	Unreliable Divisive Reliable Reluctant	Independent Undisciplined Contributing Welcome						
Innovator Original Infrequent Unnecessary Constant	Appropriate Clever Creative Disruptive	Consistent Sensible Unimaginative Rash						
Job expertise Amateur Obsolete Masterful Versatile	Improving Mediocre Balanced Up-to-date	Too technical Disinterested Lagging Thorough						

(Complete Annually)

.17

Time Period Involved		EMPLOYEE ANNUAL PERFORMANCE APPRAISAL	<input type="checkbox"/> EXEMPT <input type="checkbox"/> NON-EXEMPT	
From	To			
Name		Position Title		Number
Division		Department		
Hire Date	Present Position Date	Number Days Absent as of		
Strengths		Development Needs		
		Suggested Plan for Performance Improvement		
Summary				
Overall Rating on Having Met Job Requirements				
Non-Exempt - Circle One			Exempt - Circle One	
1	2	3	1	2
1 = Did Not Meet Job Requirements			1 = Did Not Meet Job Requirements 2 = Met Most	
2 = Met All 3 = Exceeded			3 = Met All 4 = Exceeded 5 = Far Exceeded	

Review the following questions before answering them, using the following criteria:

- A "yes" answer should be considered for possible mention as a "strength". If so, refer to it on the first page of this evaluation.
- A "no" answer should be considered for possible mention as a "development need". If so, refer to it on the first page of this evaluation.

All answers should be considered in arriving at an overall rating on having met job requirements.

	CHECK AS APPROPRIATE				
	Strength	Yes	N/A	No	Development Need
<u>Quality of Work</u>					
Is work accurate, neat and clearly presented?	()	()	()	()	()
Carefully planned, well organized and thorough?	()	()	()	()	()
<u>Productivity</u>					
Is a good level of production maintained?	()	()	()	()	()
Are deadlines met?	()	()	()	()	()
Are pressure situations handled effectively?	()	()	()	()	()
<u>Knowledge of Job</u>					
Does the individual know where to get information?	()	()	()	()	()
Is the individual used as a source of information by others?	()	()	()	()	()
<u>Communication</u>					
Does the individual ask for clarification when necessary?	()	()	()	()	()
Does the individual respond to others in a manner that indicates understanding?	()	()	()	()	()
Are ideas expressed so that others are able to understand them?	()	()	()	()	()
<u>Human Relations</u>					
Does the individual cooperate with others to get the job done?	()	()	()	()	()
Does the individual demonstrate tact and courtesy in dealing with others?	()	()	()	()	()
Does the individual maintain a good working relationship with all others?	()	()	()	()	()
Are questions and requests dealt with in a helpful manner?	()	()	()	()	()
<u>Need for Supervision</u>					
Can the individual be relied upon to get work done without close supervision?	()	()	()	()	()
Does the individual take the initiative when appropriate?	()	()	()	()	()

	CHECK AS APPROPRIATE				
	Strength	Yes	N/A	No	Development Need
<u>Problem Solving</u>					
Does the individual collect the data needed to solve problems?	()	()	()	()	()
Are problems solved quickly?	()	()	()	()	()
Are solutions reasonable and accurate?	()	()	()	()	()
Does the individual know when to ask for advice and whom to ask?	()	()	()	()	()
Does the individual seek out methods to do work more efficiently?	()	()	()	()	()
Are alternate solutions generated when appropriate?	()	()	()	()	()
<u>Work Habits</u>					
Does the individual comply with the company's established work hours?	()	()	()	()	()
Does the individual provide proper notification when absent from work?	()	()	()	()	()
<u>Personal Development</u>					
Does the individual try to expand on required knowledge and skills?	()	()	()	()	()
Does the individual readily grasp and master the new job requirements?	()	()	()	()	()
Does the individual show ambition by building on strengths and working on deficiencies?	()	()	()	()	()
Is the individual a good candidate for promotion?	()	()	()	()	()
Is the individual ready for promotion at this time?	()	()	()	()	()
<u>Supervisory Capabilities</u>					
Does the individual demonstrate the ability to direct and be responsible for the performance of others?	()	()	()	()	()
Does the individual effectively evaluate and develop subordinates?	()	()	()	()	()
Are subordinates properly motivated?	()	()	()	()	()
Are subordinates given reasonable goals and aided in meeting them?	()	()	()	()	()
Does the individual comply with administrative and policy guidelines of the company?	()	()	()	()	()
Is good judgment exercised in observing budget constraints?	()	()	()	()	()
Does the individual maintain adequate discipline in regard to subordinates' attendance and punctuality?	()	()	()	()	()
Does the individual provide a good example for peers and subordinates to follow?	()	()	()	()	()

INCUMBENT REVIEW COMMENTS & ACKNOWLEDGEMENT

I acknowledge that: (1) I have reviewed and discussed this performance appraisal with the preparer. My signature means that I have been advised of my performance evaluation but does not necessarily imply that I agree with it; (2) I have received a copy of the goals/ duties that will be used to evaluate my performance during the coming year; and (3) I have reviewed my job description and do ☐ do not ☐ feel it should be revised. My signature and the date I discussed this with the preparer appear below.

Employee	Date	Evaluator/Title	Date

.18 New Client Acceptance Checklist

Name of prospective client: _____

Address and Phone No.: _____

Name and title of contact at prospective client: _____

Form completed by: _____ Date: _____

Instructions

This form provides for information necessary to assess whether to accept a prospective client. The information should be obtained from discussions with the prospective client's management, banker, attorney, and if applicable current or former independent CPA, from reviewing the client's financial statements and tax returns, and from other sources such as industry or accounting journals, etc. As much information as possible should be obtained before visiting the potential client. Depending on the type of engagement involved, some information requested on this form may not be applicable, or additional information may be necessary and should be attached.

Services and Reports Required

1. Describe the service and reports requested. _____

2. Describe the reason the service is needed, including any regulatory requirements or third parties for which the service or report is intended. _____

3. What is the required completion date? _____
4. Describe any other services not requested for which there appears to be a need. _____

Industry Practices and Conditions

5. In what industry does the company operate? _____

6. Describe any specialized tax or accounting practices applicable to the industry. _____

7. Describe any economic, technological or competitive conditions or other recent developments in the industry that may affect the company's operations. _____

8. Describe any special regulatory requirements applicable to the industry. _____

Organization and Personnel

9. Company's Legal Name: _____ Fiscal Year End: _____
10. Type of legal entity (corporation, S corporation, partnership, proprietorship, etc.): _____

11. List the major stockholders (partners or owners) of the company and their percentage of ownership. If applicable, obtain and attach a copy of the company's organization chart.

Name and (if applicable) Title	% Ownership
_____	_____
_____	_____
_____	_____
_____	_____

12. List the principal members of management.

Name and Title	Stated Qualifications (education, training, and experience)
_____	_____
_____	_____
_____	_____
_____	_____

13. Briefly describe any existing or contemplated employee bonus arrangement (individual, title, method of computation), stock option, or pension (profit sharing) plans that may affect the engagement.

14. List each location maintained by the company (including foreign locations, if any), the nature of the activity performed at each, and the approximate number of employees at each, i.e., plant, sales office, executive offices, etc.

Location	Activity	No. of Employees
_____	_____	_____
_____	_____	_____

15. Inquire about possible transactions with related parties that may affect the engagement.

Name of Related Party	Relationship	Type of Transaction
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Operations

16. Describe the nature of the company's major assets and liabilities. _____

17. What are the company's sources of revenue and marketing methods? *[Describe major products, customers, etc.]* _____

18. If the company is economically dependent on a major customer, name the customer and approximate percentage of total revenue generated by this customer. _____

19. Describe the components of cost of goods sold and the company's production process. _____

20. What are the major expenses of the company other than cost of goods sold? _____

21. Describe the company's compensation methods, i.e., salary, hourly wage, commissions, piecework, union scale, etc. _____

22. What are the company's major sources of financing, i.e., working capital loans, long term debt, leasing, equity, etc. Describe restrictive covenants on any loan agreement. _____

Accounting

23. Does the company maintain the following items? *[Attach description, if appropriate.]*
- a. Accounting manual? _____
 - b. Budget? _____
 - c. Cost accounting system? _____
 - d. EDP equipment? (indicate type of equipment and software) _____
 - e. Written credit policy? _____

24. Briefly describe the accounting system and accounting responsibilities.

Description of Accounting Record	Name of person who is responsible	EDP	MANUAL	N/A
General Ledger				
Subsidiary Ledgers:				
Accounts receivable				
Fixed assets				
Loans payable				
Accounts payable				
Perpetual inventory				
Physical inventory summarization				
Journals:				
Cash receipts				
Cash disbursements				
Sales/purchase/voucher				
Payroll				
General journal entries				
Financial Reporting				
<i>[Indicate basis of accounting]:</i>				
Annual financial statements				
Monthly financial statements				
Management reports				
Other:				
Bank reconciliations				

25. Describe the company's completeness procedures and methods to insure that accounting transactions enter into the accounting system, i.e., that all shipments or services are invoiced, that all cash sales are recorded, and that all disbursements are recorded.

26. Describe any unusual features of the accounting system. _____

27. For audit engagements, does it appear that the accounting system provides accounting records sufficient to permit the application of audit procedures on a cost-effective basis? *[If no, attach a memo explaining the possible scope limitation, its potential effect on the auditor's report, and the management's potential reaction.]* _____

Tax Matters

28. Who prepares the tax returns? _____

29. Describe major differences between book and tax income, unusual tax elections, carry forwards or IRS examinations in process. If possible, review copies of the most recent 3 years of tax returns and attach them to this form. _____

Other Matters

30. Describe any significant problems that could affect the engagement, such as litigation or other contingencies, unusual agreements, and plans to acquire or dispose of significant assets, merge with another entity, enter a new area of business, convert to or expand use of EDP equipment, etc. _____

31. Give the name of a current or former independent CPA. _____

Describe any disputes over accounting matters. _____

32. Describe any apparent problems or areas for improvement that were noted where our firm could provide additional service or recommendations. _____

Independence

33. Would service to this client cause problems of independence or conflicts of interest because of relationships with other clients or members of the staff? _____

Fees

34. Based on inquiries with a current or former independent CPA, if applicable, indicate the amount of any unpaid fees and the reason for nonpayment. _____

35. If possible indicate the amount of fees charged by an existing or former independent CPA for the service being proposed. (The CPA or the potential client may be willing to furnish this information, or it might be obtainable from the financial statements or tax return.) _____

36. Describe any other indications that our firm might have a problem billing or collecting our fees. _____

Management Integrity

37. Have any of the following sources raised any concerns about management's integrity?
- a. Difficulty in obtaining information from management, or evasive, guarded or glib responses to inquiries. _____

 - b. Apparent difficulty in meeting financial operations or a deteriorating financial position that might predispose management to make an intentional error, irregularity or misrepresentation. _____

 - c. Disputes about accounting principles, engagement procedures or similarly significant matters with an existing or former accountant, or doubts of the predecessor accountant about management's integrity. _____

 - d. Comments by bankers, attorneys, creditors, or others having a business relationship with the potential client. _____

38. If management is changing accountants, why is the change being made? _____

39. Is there any reason to suspect that management would be uncooperative, unreasonable or otherwise unpleasant to work with? _____

Other Comments or Observations

40. Give any other comments or observations that might affect our decision whether to prepare a proposal letter or its contents. Add attachments to this form, if necessary. _____

.19 Client Evaluation Questionnaire

CONFIDENTIAL

Client _____ Account Director _____
Date _____

[Circle only one number in each group.]

What is usual condition of client's records?

- 2 Unusable or always late
- 4 Scattered but workable
- 6 Client needs orientation
- 8 Good
- 10 Excellent

What is client's potential growth?

- 5 Terminating
- 10 Decreasing
- 15 Level
- 20 Growing
- 25 Unlimited

What is client's attitude toward IRS?

- 1 Apprehensive
- 2 Hostile
- 5 Apathetic
- 8 Cooperative

What work is done for client?

- 3 Bookkeeping
- 6 Unaudited reports
- 9 Opinion audits
- 12 Year-end work and special services
- 15 Comprehensive services

Does client pay fees on time?

- 1 May never pay
- 2 Always 90 days late
- 5 Pays within 45 days
- 10 Pays when billed

What is the total annual fee?

- 3 To \$1,500
- 6 \$1,500-\$5,000
- 9 \$5,000-\$10,000
- 12 Above \$10,000

What is client's attitude toward recommending us?

- 1 Would never do so
- 2 Might do so
- 12 Has not recently
- 16 Does at times
- 20 Does frequently

What does client want from us?

- 1 Minimum service
- 2 Security regarding IRS
- 3 Counseling
- 4 Timely service
- 5 Direction and tax planning

From whom does client seek information?

- 1 Employees
- 2 News media
- 3 Competitors
- 4 Friends
- 5 Professionals (including us)

What is client's attitude toward expenses?

- 1 Spendthrift
- 2 Niggardly
- 3 Economical
- 4 Liberal
- 5 Goes "first class"

How does client react to fees?

- 1 Fees always challenged as too high
- 5 Requires itemized bill
- 10 Usually accepts amount of bill
- 15 Wants service and expects to pay
- 20 Thinks we are superior— pays premium

What is client's attitude toward our staff?

- 1 Critical and argumentative
- 2 Uncooperative
- 3 Usually cooperative
- 4 Businesslike
- 5 Friendly and appreciative

Does client expose us to legal action?

- 1 High risk
- 2 Would consider suit
- 3 Low risk
- 4 Little risk
- 5 Would never sue

What is client's financial strength?

- 1 Insolvent
- 4 Solvent but undercapitalized
- 8 Adequate
- 10 Strong capital structure

Above conditions prevailed at month of _____

Evaluation by _____

Scoring:

Maximum = 154 points

Minimum = 23 points

30 points and below = Drop client

30 to 50 points = Evaluate in 90 days (on trial)

50 to 70 points = Make an attempt to upgrade client

70 points and above = Retain client

Total Points _____

Make additional comments on back.

.20 Summary Inspection Report

I. *Planning the Inspection*

A. Inspection period _____

B. Composition of Inspection Team:

1. Captain _____ Position _____

2. Team Member _____ Position _____

3. Team Member _____ Position _____

C. Indicate matters that may require additional emphasis in the inspection and explain why.

D. Development of Inspection Program:

1. Describe programs used and indicate any deviations therefrom.

2. Describe basis for selection of engagements.

E. Timing of Inspection:

Commencement _____

Completion of field work _____

Issuance of report _____

II. *Scope of Work Performed*

A. Indicate elements of quality control not addressed and give reasons.

B. Engagements Reviewed:

	Firm Totals		Engs. Reviewed	
	Hrs.	No. of Engs.	Hrs.	No. of Engs.
Audits:				
SEC Clients				
Government ¹				
Other				
Reviews				
Compilations				
Other Accounting				
Services	_____	_____	_____	_____
	_____	_____	_____	_____
	_____	_____	_____	_____
Percentage of A&A				
Practice Reviewed			_____	_____
			_____	_____
Comments:	_____			

III. Engagement Conclusions

A. Did the inspection disclose any situation that led the reviewers to conclude that the firm or office should consider:

1. Taking action to prevent future reliance on a previously issued report, pursuant to SAS No. 1 (AU section 561)? Yes _____ No _____
2. Performing additional auditing procedures to provide a satisfactory basis for a previously expressed opinion, pursuant to SAS No. 46 (AU section 390)? Yes _____ No _____

B. Did the inspection team conclude in any instances that the firm or office lacked a reasonable basis under the standards for accounting and review services for the report issued? Yes _____ No _____

If any of the answers above are yes, attach a description of such situations, including actions the firm or office has taken or plans to take.

IV. Findings and Recommendations

Attach a copy of any reports issued, including a summary of any inspection findings and recommendations for improvement or list such findings and recommendations below.

Supervisory Partner _____

Date _____

¹Includes only audits conducted pursuant to the Single Audit Act of 1984.

.21 Inspection of Compliance With Policies and Procedures Relating to the Elements of Quality Control

[Period covered]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>Extent of Testing</u>
<u>Independence</u>				
1. Have memorandums of inquiry, written representations, or other appropriate documentation been obtained, evidencing:				
a. Communication of firm policies and procedures relating to independence?	_____	_____	_____	_____
b. Monitoring of compliance with those policies and procedures?	_____	_____	_____	_____
2. Have independence questions which have arisen been appropriately resolved and, where necessary, have appropriate authorities been consulted?	_____	_____	_____	_____
<u>Assigning Personnel to Engagements</u>				
1. Have the firm's policies and procedures been followed to provide reasonable assurance that personnel are assigned to engagements in a manner that attempts to achieve a balance between the complexity of the engagement, the qualifications of the staff and individual development?	_____	_____	_____	_____
<u>Consultation</u>				
1. Does the firm's reference library contain technical manuals, and recent pronouncements, including those relating to particular industries and other specialties, that meet the needs of the practice?	_____	_____	_____	_____
2. On engagements reviewed, was consultation made and documented in accordance with firm policy?	_____	_____	_____	_____
3. If sufficient testing of consultation policies and procedures was not performed in 2 above, were consultations that took place				

	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>Extent of Testing</u>
appropriately and correctly applied? (This may be accomplished through inquiry or review of the subject files.)	_____	_____	_____	_____
<u>Supervision</u>				
1. On engagements reviewed, have the required technical materials (audit manuals, standardized forms, checklists and questionnaires) been used?	_____	_____	_____	_____
2. Based on the engagements reviewed:				
a. Are the technical materials sufficiently comprehensive and up-to-date?	_____	_____	_____	_____
b. Are the firm's policies and procedures for the review of engagement working papers, reports and financial statements appropriate?	_____	_____	_____	_____
c. Are the firm's procedures for resolving differences of opinion among members of the engagement team appropriate?	_____	_____	_____	_____
<u>Professional Development</u>				
1. Do the firm's professional development records meet the requirements of the firm and of the applicable (state) Board of Accountancy?	_____	_____	_____	_____
2. Has the professional development program for the last year been reviewed to determine if it fulfills the firm's needs for personnel with expertise in specialized areas and industries?	_____	_____	_____	_____
<u>Hiring</u>				
1. Has the firm planned for its personnel needs in accordance with its policies and procedures?	_____	_____	_____	_____
2. Does the firm's hiring program satisfy its needs?	_____	_____	_____	_____
3. Do personnel files of recently hired employees contain appropriate evidence that the individuals meet the firm's personal, educational, and experience requirements?	_____	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>Extent of Testing</u>
4. Have new personnel been notified of the policies and procedures that apply to them?	_____	_____	_____	_____

Advancement

1. Based on a review of personnel files, personnel evaluations, or other documentary evidence, have personnel been evaluated and promoted in accordance with the firm's policies and procedures?	_____	_____	_____	_____
--	-------	-------	-------	-------

Acceptance and Continuance of Clients

1. Do new client files contain documentation of compliance with the firm's policies and procedures for acceptance of clients?	_____	_____	_____	_____
2. On engagements reviewed, was the firm's policy for continuance of clients, including required documentation, complied with?	_____	_____	_____	_____

Inspection

1. Were appropriate corrective actions taken, including effective follow-up, with respect to the prior period's inspection findings?	_____	_____	_____	_____
--	-------	-------	-------	-------

_____ Reviewer	_____ Date
_____ Supervisory Partner	_____ Date

**Note: See exhibit 307-76 of the AICPA MAP Handbook for an alternative.*

.22 Audit Time Budget—Sample A

Audit Time Budget

Client _____ Examination date _____

Prepared by _____

Approved:

Supervisor _____ Date _____ Partner _____ Date _____

Preliminary work:

Final work:

Start _____ End _____ Start _____ End _____

	Budget (in hours)	
	May to Nov.	Dec. to April
Cash		
Receivables:		
Confirmation of balances		
Review ledgers, etc.		
Inventories:		
Observation of physical counts		
Price tests, etc.		
Securities and investments		
Property, plant, and equipment		
Accumulated depreciation and amortization		
Other assets		
Notes and accounts payable		
Tax accruals		
Other liabilities		
Capital stock		
Retained earnings		
Other equity accounts		
Income accounts		
Costs and expense accounts		
Current provision for taxes		
Other income and expense accounts		
Minutes, agreements, etc.		
Conferences with client		
General supervision and planning		
Review computer programs and auditability		
Review of internal control		
Review and update permanent files		
Travel		
Report and statement review		
Other matters		
Total budgeted hours		
(Excludes tax and report departments' time)		

[illegible]

.24 Audit Time Analysis (Short Form)

[illegible]

.25 Audit Time Analysis (Long Form)

	Client		Year ended		Actual Daily Hours		Next year's budget
	Prior Years	Total	Budgeted Hours		Total	Total	
			Week beginning				
Administration							
Client conferences							
Planning and scheduling							
Staff supervision							
Accounting systems review							
Internal control							
EDP installation							
General ledger							
Cash							
Sales							
Voucher register							
Payroll							
Journal entries							
Confirmations							
Permanent file							
Client advisory comments							
Report preparation							
Financial statements							
Footnotes							
Tax return preparation							
Review							
Initial review							
Overall review							
Detailed review							
Tax accrual review							
Subtotal to next page							

Client _____ **Year ended** _____

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.26 Weekly Progress Report

Weekly Progress Report					
					Date _____
Supervisor _____	In-charge accountant _____				
Client _____	Case _____				
Staff days—seven hours					
	<u>Original Estimate</u>	<u>Used to date</u>	<u>Unused</u>	<u>Est. to complete</u>	<u>Variance</u>
In-charge accountant	_____	_____	_____	_____	_____
Assistants (<i>list</i>):					
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
Total assistants	_____	_____	_____	_____	_____
Grand total	_____	_____	_____	_____	_____

.27 Illustrative Planning Checklist

[Sample Page*]

	<u>Done</u> <u>by</u>	<u>Date</u>
.01 A. Understanding the Assignment		
1. Have engagement personnel considered the following matters in planning the engagement:		
a. The entity's accounting policies and procedures	_____	_____
b. Financial statement items likely to require adjustment	_____	_____
c. The nature of reports expected to be rendered (for example, a report on consolidated or consolidating financial statements, reports on financial statements filed with the SEC, or special reports such as those on compliance with contractual provisions)	_____	_____
2. In planning the audit, have engagement personnel—		
a. Discussed the type, scope, and timing of the audit with the entity's management, board of directors, or audit committee?	_____	_____
b. Considered the effects of applicable accounting and auditing pronouncements, particularly new ones?	_____	_____
c. Coordinated the assistance of entity personnel in data preparation?	_____	_____
d. Determined the extent of involvement, if any, of consultants, other independent auditors, specialists, and internal auditors?	_____	_____
.02 B. Assigning Personnel to the Engagement		
1. Has a time budget for the engagement been prepared to determine manpower requirements and to schedule fieldwork?	_____	_____
2. Has the engagement partner approved the time budget prior to the beginning of fieldwork?	_____	_____
3. Have the following factors been considered in achieving a balance of engagement manpower requirements, personnel skills, individual development, and utilization:		
a. Engagement size and complexity?	_____	_____
b. Personnel availability?	_____	_____
c. Special expertise required?	_____	_____

*Note: For a complete Illustrative Planning Checklist, see section 3165 of the *AICPA Audit and Accounting Manual*.

- d. Timing of the work performed? _____
- e. Continuity and periodic rotation of personnel? _____
- f. Opportunities for on-the-job training? _____
- 4. Has the scheduling and staffing of the engagement been approved by the partner with final responsibility for the engagement, so that the partner can consider the qualifications, experience, and training of personnel to be assigned? _____

.03 C. *Independence*

- 1. If acting as principal auditor, has written confirmation of the independence of other firms engaged to perform segments of the audit been obtained? _____
- 2. Have annual independence questionnaires been reviewed for all engagement personnel to assure that those individuals assigned to the engagement are independent? _____
- 3. Have accounts receivable from the client been reviewed to ascertain whether any outstanding amounts take on some of the characteristics of loans and may, therefore, impair the firm's independence? _____
- 4. In situations in which the firm is not independent, has the issuance of a disclaimer of opinion been discussed in accordance with Statement on Auditing Standards (SAS) No. 26, *Association With Financial Statements*, paragraphs 8–10 (AU sections 504.06–.10)? _____

.28 Audit Engagement Letter Leading to Opinion

SWIFT, MARCH & COMPANY

Certified Public Accountants

[Date]

Mr. Thomas Thorp, President
Anonymous Company, Inc.
Route 32
Nowhere, New York 10000

Dear Mr. Thorp:

This will confirm our understanding of the arrangements for our audit of the financial statements of Anonymous Company, Inc., for the year ending [date].

We will audit the Company's balance sheet at [date], and the related statements of income, retained earnings, and cash flows for the year then ended, for the purpose of expressing an opinion on them. The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We will conduct our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit will provide a reasonable basis for our opinion.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected customers, creditors, legal counsel, and banks. At the conclusion of our audit, we will request certain written representations from you about the financial statements and matters related thereto.

Our audit is subject to the inherent risk that material errors and irregularities, including fraud or defalcations, if they exist, will not be detected. However, we will inform you of irregularities that come to our attention, unless they are inconsequential.

If you intend to publish or otherwise reproduce the financial statements and make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

We will review the Company's federal and state [identify states] income tax returns for the fiscal year ended [date]. These returns, we understand, will be prepared by the controller.

Further, we will be available during the year to consult with you on the tax effects of any proposed transactions or contemplated changes in business policies.

Our fee for these services will be at our regular per diem rates, plus travel and other out-of-pocket costs. Invoices will be rendered every two weeks and are payable on presentation.

We are pleased to have this opportunity to serve you.

If this letter correctly expresses your understanding, please sign the enclosed copy where indicated and return it to us.*

Very truly yours,

SWIFT, MARCH & COMPANY

.....
Partner

APPROVED:

By

Date

*Some accountants prefer not to obtain an acknowledgment, in which case their letter would omit the paragraph beginning "If this letter. . . ." and the spaces for the acknowledgment. The first paragraph of their letter might begin as follows: "This letter sets forth our understanding of the terms and objectives of our engagement. . . ."

.29 Illustrative Engagement Letter for a Compilation

SWIFT, MARCH & COMPANY

Certified Public Accountants

[Date]

Mr. Tom Jones, President
ZYXWV Freight Corporation
648 Crystal Lane
Noplace, Anystate 00000

Dear Mr. Jones:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following services:

1. We will compile, from information you provide, the annual and interim balance sheets and related statements of income, retained earnings and cash flows of ZYXWV Freight Corporation for the year 19XX. We will not audit or review such financial statements. Our report on the annual financial statements of ZYXWV Freight Corporation is presently expected to read as follows:

We have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings and cash flows for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Our report on your interim financial statements, which statements will omit substantially all disclosures, will include an additional paragraph that will read as follows:

Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and its cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

If, for any reason, we are unable to complete the compilation of your financial statements, we will not issue a report on such statements as a result of this engagement.

2. We will assist your bookkeeper in adjusting the books of account so that he or she will be able to prepare a working trial balance from which financial statements can be compiled. Your bookkeeper will provide us with a detailed trial balance and any supporting schedules we require.
3. We will also prepare the federal and state [*identify states*] income tax returns for ZYXWV Freight Corporation for the fiscal year ended December 31, 19XX.

Our engagement cannot be relied upon to disclose errors and irregularities, including fraud or defalcations, that may exist. However, we will inform you of irregularities that come to our attention, unless they are inconsequential.

If you intend to publish or otherwise reproduce the financial statements and make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

Our fees for these services. . . .

We shall be pleased to discuss this letter with you at any time.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.*

Sincerely yours,

.....
Swift, March & Company

Acknowledge:

ZYXWV Freight Corporation

.....
President

.....
Date

* Some accountants prefer not to obtain an acknowledgment, in which case their letter would omit the paragraph beginning "If the foregoing. . . ." and the spaces for the acknowledgment. The first paragraph of their letter might begin as follows: "This letter sets forth our understanding of the terms and objectives of our engagement. . . ."

.30 Illustrative Engagement Letter for a Review

SWIFT, MARCH & COMPANY

Certified Public Accountants

[Date]

Mr. Tom Jones, President
ZYXWV Freight Corporation
648 Crystal Lane
Noplace, Anystate 00000

Dear Mr. Jones:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following services:

1. We will review the balance sheet of ZYXWV Freight Corporation as of *[date]*, and the related statements of income, retained earnings and cash flows for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. We will not perform an audit of such financial statements, the objective of which is the expression of an opinion regarding the financial statements taken as a whole, and, accordingly, we will not express such an opinion on them. Our report on the financial statements is presently expected to read as follows:

We have reviewed the accompanying balance sheet of ZYXWV Corporation as of December 31, 19XX, and the related statements of income, retained earnings and cash flows for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of ZYXWV Freight Corporation.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

If, for any reason, we are unable to complete our review of your financial statements, we will not issue a report on such statements as a result of this engagement.

2. We will provide your chief accountant with such consultation on accounting matters as he may require in adjusting and closing the books of account and in drafting financial statements for our review. Your chief accountant also will provide us with a detailed trial balance and any supporting schedules we require.
3. We will also prepare the federal and state *[identify states]* income tax returns for ZYXWV Freight Corporation for the fiscal year ended December 31, 19XX.

Our engagement cannot be relied upon to disclose errors and irregularities, including fraud or

defalcations, that may exist. However, we will inform you of irregularities that come to our attention, unless they are inconsequential.

If you intend to publish or otherwise reproduce the financial statements and make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

Our fees for these services. . . .

We shall be pleased to discuss this letter with you at any time.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.*

Sincerely yours,

.....
Swift, March & Company

Acknowledge:

ZYXWV Freight Corporation

.....
President
.....
Date

*Some accountants prefer not to obtain an acknowledgment, in which case their letter would omit the paragraph beginning "If the foregoing..." and the spaces for the acknowledgment. The first paragraph of their letter might begin as follows: "This letter sets forth our understanding of the terms and objectives of our engagement..."

.31 Illustrative Audit Program

[Sample Page*]

	<u>Done</u> <u>By</u>	<u>No</u>	<u>W/P</u> <u>Ref.</u>
I. General Procedures			
A. .030 Fieldwork			
1. For trial balances and other schedules and analyses prepared by the client, perform the following:			
a. Trace amounts to the general ledger	_____	_____	_____
b. Re-perform the footings and crossfootings (test basis may be appropriate)	_____	_____	_____
c. Trace opening balances to final balances per the working papers for the preceding year (period)	_____	_____	_____
2. Communicate internal control structure related matters noted (see SAS No. 60 [AU section 325]).	_____	_____	_____
3. Obtain written representation from management of the client (SAS No. 19 [AU section 333]).	_____	_____	_____
Note: Many firms include other matters in the general sections of programs, such as disposition of proposed adjustments, report preparation and review, reconciliation of actual and estimated time, preparation of fee estimate for next year, evaluation of staff, etc.			

This audit program section has been completed in accordance with firm policy.

	Date
Done by _____	_____
Reviewed by _____	_____

*Note: For a complete Audit Program, see section 5400 of the *AICPA Audit and Accounting Manual*.

.32 Engagement Review Program

[Sample Page*]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
I. Functional Areas			
A. .010 Independence			
1. Was any evidence noted during the audit which may indicate impaired independence (including a lack of objectivity or threatened litigation), and if so, was the matter identified and appropriately resolved?	_____	_____	_____
2. If the firm was not independent, was the lack of independence disclosed in a report limited to a disclaimer of opinion for a public company, or if applicable, to a compilation report for a nonpublic company?	_____	_____	_____
3. Was timely and appropriate assurance of independence of other firms engaged to perform segments of the engagement obtained?	_____	_____	_____
4. For non-SEC clients, were the fees for the prior year's services paid prior to issuance of the report for the current engagement?	_____	_____	_____
5. For SEC clients, if the fees for the prior year's services were not paid prior to the commencement of the current engagement, were the SEC rules for unpaid professional fees adhered to?	_____	_____	_____
B. .020 Assigning Personnel to Engagements			
1. Were scheduling and staffing requirements approved by a partner on a timely basis?	_____	_____	_____
2. Is the level of experience of the personnel assigned and/or supervision appropriate for the auditor's assessment of the level of risk for the engagement?	_____	_____	_____
C. .030 Consultation			
1. When situations arose in the engagement which, because of firm policy, required consultation, was appropriate consultation made and documented?	_____	_____	_____
2. If the engagement records indicated a difference of opinion between engagement personnel and a specialist or other consultant, was the difference resolved in accordance with firm policy and appropriately documented?	_____	_____	_____

3. Were the considerations involved in the resolution of the differences of opinion mentioned in item 2 above appropriately documented? _____

D. .040 *Supervision*

1. Does it appear that audit planning was adequately documented in the working papers, including any changes in the original plan? _____
2. Were appropriate personnel assigned to the engagement involved in the planning process? _____
3. Was background information developed or, if information was obtained from prior engagements, was it updated for changed circumstances (e.g., proposed work program, manpower requirements, etc.)? _____
4. Did the partner (or manager) approve the overall audit plan (including audit program) as the final planning step and convey his approval or modifications to the engagement staff? _____
5. Does it appear that adequate supervision was provided considering the background and experience of personnel assigned to the engagement? _____
6. Does it appear that hours charged by the partner and manager were both adequate and appropriately timed to provide for planning and supervision as the job progressed? _____
7. Were the firm's guidelines complied with regarding the form and content of audit working papers? _____

**Note: For a complete Review Program, see section 9200 of the AICPA Audit and Accounting Manual.*

.33 Client Acceptance Form

Instructions: *This form should be completed for each prospective client before accepting an engagement.*

Client name:

Address:

Telephone number:

Form of legal entity:
(partnership, corporation, etc.)

What type of business is the client in?

List management and officers of the client:

How did we become aware of this potential client?

Are the client's accounting services now being performed by another accounting firm? If yes, what is the name of the firm and the client's reason for changing accounting firms?

Have we contacted the client's previous accounting firm? If yes, list their comments. If not, explain why.

Does the client owe fees to the previous accountants?

Did we have prior knowledge of the client? If not, list the names of references checked and any comments.

What services would our firm be expected to perform? What would the timing of these services be?

Estimate the net fees and describe the billing arrangements.

Is there any reason to doubt the client's management or officers' representations or integrity? If yes, describe.

Are we aware of any independence problems between this client and our staff? If yes, describe.

Does our firm have the necessary expertise and staff to perform the engagement properly?

Comments:

Conclusions

_____ Accept Engagement

_____ Not Accept Engagement

Form prepared by _____ Date _____

Engagement Partner _____ Date _____

Concurring Partner _____ Date _____

.34 Client Information Form

Instructions: *This form should be completed for each client before beginning our first engagement. The form should be updated annually.*

Client name:

Form of legal entity:
(partnership, corporation, etc.)

What type of business is the client in?

List the sources of authoritative literature which describe any specialized accounting principles that are or should be followed by this client.

Does this client have any accounting principles or policies that are specific to this entity? Please describe.

On what basis of accounting are the financial statements being presented?

List the key members of management.

List the major stockholders of the client and their percentage of ownership, if known:

List all related parties (e.g., subsidiaries, affiliated companies).

Describe any transactions between the client and these related parties.

How many employees does the client have?

How many locations does the client have?

List each location, the type of activity (e.g., plant, home office, etc.) done at each location and the number of employees at the location.

<u>Location</u>	<u>Activity</u>	<u>Number of Employees</u>
-----------------	-----------------	----------------------------

Describe the client’s major assets.

Describe the client’s major liabilities.

Describe the client's major sources of revenue.

Describe the client's major expenses.

[Note: If the client is in manufacturing, then other operating characteristics which should be described are the components of cost of goods sold, any marketing methods and the production process.]

List key accounting records which are expected to be reviewed and identify the person responsible and the form of the records (manual, computer, service bureau).

<u>Accounting Record</u>	<u>Person Responsible</u>	<u>Form</u>
General ledger		
Journals		
Cash receipts		
Cash disbursements		
Payroll		
Sales		
Purchases		
Voucher register		
Subsidiary ledgers		
Accounts receivable		
Accounts payable		

Perpetual inventory

Fixed assets

Comments:

Prepared by: _____ Date _____

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